September 02, 2024

Kothari Petrochemicals Limited: Ratings upgraded to [ICRA]A+ (Stable)/[ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	22.28	-	-
Long-term fund-based – Cash credit	22.50	22.50	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Short-term non-fund based	20.00	20.00	[ICRA]A1+; upgraded from [ICRA]A1
Short-term – Unallocated Limits	0.00	5.00	[ICRA]A1+; upgraded from [ICRA]A1
Total	**64.78**	**47.50**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the ratings of Kothari Petrochemicals Limited (KPL) factors in the increased scale of operations and improved profitability and expected sustenance of the same going forward. The revenues witnessed a CAGR of 25.73% to Rs. 603.1 crore in FY2024 from Rs. 381.5 crore in FY2022 and the operating profitability witnessed improvement over the last few years with OPM increasing to 15.93% in FY2024. The growth in the topline can be attributed to the increase in sales volumes for Polyisobutylene (PIB) to 41,438 MT in FY2024 from 32,554 MT in FY2023 and from 29,302 MT in FY2022. The profitability increased in FY2024 due to economies of scale and better absorption of fixed costs. The ratings also factor in company's healthy financial risk profile along with comfortable capital structure characterized by low gearing and comfortable coverage indicators. The ratings also consider KPL's well-established customer base, which includes major lubricant manufacturers in the domestic and export markets. ICRA also notes KPL's efforts to develop new products and the growing demand for such products. While the revenue contribution of new products is modest at present, they are expected to drive growth and provide diversification benefits, going forward.

The ratings continue to consider KPL's established position in the domestic poly iso-butylene (PIB) market and its established relationships with feedstock suppliers, which mitigate the raw material availability risks. Feedstock availability is a key risk for PIB manufacturers in India as the feedstock is increasingly used for alternative higher value-added applications. KPL sources ~25-30% of its raw material requirement from Chennai Petroleum Corporation Limited (CPCL) and the balance from other sources. KPL procures the feedstock from CPCL through pipelines and the unreacted feedstock is supplied back to CPCL through pipelines. However, it directly procures majority of isobutylene (IB) from RIL, which is the main raw material for PIB.

The ratings are constrained by KPL's vulnerability to commodity price cycles, forex fluctuations and import duty levels, as demonstrated by its volatile profitability metrics in the past. ICRA also notes the moderate cost competitiveness arising from the limited integration across the petrochemical value chain with moderate capacities. The ratings further consider the subdued market outlook for two-stroke (2T) oils in the medium to long term, where PIB finds major application as an additive. It would, hence, be imperative for KPL to diversify its clientele based on end applications. Although the projects to be undertaken by KPL to diversify into new customer segments are at a very nascent stage, the company has been continuously involved in R&D to mitigate the risk of demand deficit.

ICRA also notes the sizeable, proposed capex plans for the production of value-added products in the near future. The capex would be funded with the existing cash balances, internal accruals, and the balance through debt. Any larger-than-expected debt-funded capex would remain a key sensitivity.

The Stable outlook on the long term rating reflects ICRA's expectation that KPL is likely to sustain its operating metrics with its strong market position and experience in PIB manufacturing. Further, the outlook underlines ICRA's expectation that the entity's incremental capex for capacity expansion will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Established position as largest PIB manufacturer in India – KPL has an established position in the PIB segment with an annual nameplate production capacity of around 48,000 MT as on date. In FY2024, the annual production of PIB was 40782 MT, which increased from 32,640 MT in FY2023. KPL faces competition from well-established international manufacturers, such as Daelim Corporation in Korea and other multinational corporations in Singapore. At present, KPL meets more than 90% of the total domestic demand of conventional PIB. The company is trying to diversify its revenue stream into different product categories (such as HR PIB and different grade variants from main grade PIB products), which will provide both customer and business diversification benefits in the medium to long term. The company already has capex plans in the pipeline for the diversification.

Healthy financial risk profile – The revenues witnessed a CAGR of 25.73% to Rs. 603.1 crore in FY2024 from Rs. 381.5 crore in FY2022 and the operating profitability witnessed improvement over the last few years with OPM increasing to 15.93% in FY2024. KPL's capital structure is characterised by low gearing and comfortable coverage indicators. The gearing remained healthy at nil levels as on March 31, 2024 vis-à-vis 0.12 times as on March 31, 2023 since the company has prepaid the entire term loan in FY2024. Going forward, the company's capital structure is expected to remain healthy on the back of healthy profitability despite 30-40% of debt-funded capex expected in FY2026 and FY2027. The coverage indicators also remained healthy with TD/OPBDITA and interest coverage of nil times and 80.8 times, respectively, in FY2024 compared with 0.40 times and 22.2 times, respectively, in FY2023.

Diversified customer base of major oil marketing companies and lubricant manufacturers from domestic and exports markets – The company caters to reputed customers. Its clientele comprises major lubricant manufacturers and 2T lube oil producers, including Lubrizol India Limited, Hindustan Petroleum Corporation Limited (HPCL) and Indian Oil Corporation Limited (IOCL), etc, in the domestic market, and Infineum Singapore PTE Limited in the overseas market. The orders are a mix of long-term contracts and tender-based orders (mainly for public sector units). KPL receives repeat orders from several of its customers and faces moderate customer concentration risk, with its top-five customers accounting for 48% of the sales in FY2024 vis-à-vis 39% of the sales in FY2023. In FY2024, KPL witnessed a strong growth in its sales volume, backed by the acquisition of new customers and increased domestic sales and exports.

Diversified supplier base mitigates risks related to raw material procurement – Raw material availability is a major risk for the industry and some of the company's competitors had to shut down production due to constrained raw material supply. KPL has, however, demonstrated its ability to sustain operations by procuring raw materials from diversified suppliers in the last few years. While ~25-30% of its requirements are met from CPCL, it meets its pending requirements from Reliance Industries Limited (RIL). The company also benefits from the raw material procured from CPCL as the latter's refinery and KPL's plant are located near each other, which reduces the freight cost of the company. Moreover, the residual feedstock from CPCL can be pumped back through pipelines. At present, the raw material procured from RIL is transported via roads. The company is in the process of modelling methods to reduce transportation cost.

Credit challenges

Margins vulnerable to commodity price cycles, especially spread between PIB and LPG/C4 rich feedstock – PIB is a commodity chemical whose prices move in line with the international demand-supply scenario and are subject to considerable volatility, depending on crude oil price movements. KPL has two types of sales arrangements - relatively long-term contract/tender-based supply and spot market sales. KPL has a formula-based pricing mechanism for its long-term agreements to better insulate its profit margins against the volatilities in the prices of the major raw material. Most of KPL's sales are on contract/tender basis with product delivery spread over relatively long periods. In such cases, the PIB prices are linked to the underlying prices of either LPG or naphtha. For spot market sales, KPL notifies its selling prices on a monthly basis, once its suppliers fix their prices.

Although the margins on PIB sales are protected to some extent by formula-linked pricing, the operating margins of the company were impacted in the past owing to higher power & fuel costs due to the increase in husk prices (major raw material for captive power plants). As a mitigant of such risk, the company has added one factor to the pricing formula i.e utility cost component so that any increase/decrease in utility cost can be passed on to the customers. The margins also remain vulnerable to commodity price cycles (especially the spread between PIB and LPG/C4 rich feedstock), forex fluctuations and import duty levels.

Exposure to demand prospects for 2T oils over medium to long term – At present, PIB finds major application in the lubricant manufacturing sector and as an additive in 2T oils, which are facing declining demand prospects in the medium to long term. KPL is trying to mitigate the risk by trying to diversify its end-customer segments and has started catering to rubber, PVC, adhesives and masterbatch manufacturers. It is also trying to develop new products, like HR PIB. However, the translation of these efforts into improved performance remains to be seen.

Environment and Social Risks:

Given the safety and environmental health-related concerns associated with chemicals, the industry is exposed to the risk of tightening regulatory norms for the production, handling, disposal and transportation of chemical products. Additionally, some products can face restrictions/substitution over time because of their hazardous nature and the availability of more environment-friendly products. Further, in the event of accidents, the litigation risks and the liabilities for clean-up could be high. While KPL has a demonstrated track record of running its operations safely, the nature of the risk (being low frequency, high impact) weighs on its ratings.

Further, operating responsibly is an imperative and instances of non-compliance with environmental, health, and safety norms could have an adverse impact on the local community which could manifest in the form of protests, constraining the company's ability to operate or expand its capacity. KPL hasn't experienced/reported any incident suggestive of safety lapses at its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be a monitorable.

Liquidity position: Strong

KPL's liquidity profile has remained strong owing to healthy cash flow from operations, unencumbered liquid investments and unencumbered cash and cash equivalents of ~Rs. 82 crore, and undrawn working capital limits of Rs. 20 crore as on June 30, 2024. The company has nil debt repayment obligations as on date. However, the planned capex will reduce the available liquidity to an extent.

Rating sensitivities

Positive factors – ICRA could upgrade the company's ratings if KPL exhibits a sustained improvement in its scale and profitability, while maintaining healthy capital structure, coverage indicators and working capital intensity.

Negative factors – Pressure on the ratings could arise if there is a sustained decline in scale and profitability, or a stretch in the working capital cycle, or a larger-than-expected debt-funded capex weakening the liquidity. The specific credit metric for downgrade is total Debt/OPBDITA higher than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Chemicals](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the issuer

About the company

Kothari Petrochemicals Limited (KPL) is the largest manufacturer of poly iso-butylene (PIB) in the country with a nameplate capacity of 48,000 MTPA, up from 36,000 MTPA in 2023 post the approval of the Pollution Control Board. KPL is a part of the Chennai-based HC Kothari Group. The promoter group held 70.99% in KPL as on March 31, 2024. KPL has a plant in Manali, Chennai, located near Chennai Petroleum Corporation Ltd's (CPCL) refinery. It uses raw material from CPCL and other sources like Reliance Industries Ltd (RIL) and manufactures PIB of varying grades that have specific applications in lube oil, and the plastic, paint and rubber industries.

KPL was started in 1989 with a unit for manufacturing caustic soda. This unit was set up as backward integration into the nitro chloro benzene (NCB) business of Kothari Sugars and Chemicals Limited (KSCL). The promoters eventually sold the chlor-alkali unit at Karaikkal, Puducherry, to Chemplast Sanmar Ltd. Since then, KPL has remained as a shell company without any significant business interests, except marginal trading operations. With effect from April 1, 2006, KPL was merged with Primetra Technologies Private Limited (PTPL), a group company that manufactured PIB. With the merger, PIB became the major business line of KPL.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	482.1	603.1
PAT	39.2	63.8
OPBDIT/OI	11.81%	15.93%
PAT/OI	8.13%	10.58%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	0.4	0.0
Interest coverage (times)	22.2	80.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)				Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loan	Long Term	-	**Sep 02, 2024**	-	Aug 04, 2023	[ICRA]A (Stable)	Jul 12, 2022	[ICRA]A (Stable)	Apr 21, 2021	[ICRA]A (Stable)
Cash credit	Long Term	22.50	**Sep 02, 2024**	**[ICRA]A+ (Stable)**	Aug 04, 2023	[ICRA]A (Stable)	Jul 12, 2022	[ICRA]A (Stable)	Apr 21, 2021	[ICRA]A (Stable)
Non-fund based	Short Term	20.00	**Sep 02, 2024**	**[ICRA]A1+**	Aug 04, 2023	[ICRA]A1	Jul 12, 2022	[ICRA]A1	Apr 21, 2021	[ICRA]A1
Unallocated limits	Short Term	5.00	**Sep 02, 2024**	**[ICRA]A1+**	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Short-term non-fund based	Very Simple
Short-term – Unallocated limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term fund-based – Cash credit**	NA	NA	NA	22.50	[ICRA]A+ (Stable)
NA	**Short-term non-fund based**	NA	NA	NA	20.00	[ICRA]A1+
NA	**Short-term – Unallocated limits**	NA	NA	NA	5.00	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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