September 30, 2024

Nandan Petrochem Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Others - Interchangeable	(202.00)	(202.00)	[ICRA]BBB+ (Stable); reaffirmed
Long term/Short term – Others – Non-fund based	245.00	245.00	[ICRA]BBB+ (Stable)/ [ICRA]A2; reaffirmed
Total	**245.00**	**245.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings factors in an expectation of a steady growth in Nandan Petrochem Limited's (NPL) turnover, leading to comfortable profit generation. NPL's operating income rose ~9% in FY2024, driven by a healthy growth of 17% in its sales volumes. The ratings also take into consideration the extensive experience of NPL's promoters in the lubrication industry. The technical know-how and the experience of NPL's promoters have resulted in established relationships with reputed original equipment manufacturers (OEMs), leading to repeat orders. The ratings also consider the financial flexibility available with NPL in the form of ICDs and unsecured loans from promoters/group entities.

While OEM and industrial sales remain the main revenue drivers for the company, ICRA notes the efforts made by NPL to expand its retail reach. Although the retail segment is dominated by established players, the segment fetches high realisations and, thus, healthy profitability and expansion in this segment remains a key monitorable.

The ratings remain constrained by the company's modest profitability metrics, which have been on a declining trend over the last few years. In FY2024, the profit margins declined with the volatility in raw material prices and elevated marketing expenses. This weakened the coverage metrics, specifically the interest coverage which stood at around 3 times in FY2024. Further, its products in the retail segment are priced relatively low than the more established players in the market, constraining its profitability metrics. However, this is mitigated by the lower overhead costs compared to the established players in the market and the higher margin in this segment vis-à-vis OEM and industrial sales. Hence, the company would be required to increase its marketing efforts to establish its brand equity and, thus, the traction in the retail segment remains to be seen.

The ratings are also constrained by NPL's working capital-intensive operations, given the high inventory and receivable levels. NPL is also exposed to the risks associated with raw material price fluctuations and the adverse movement in foreign currency as it meets a significant portion of its raw material requirements through imports.

The Stable outlook on the [ICRA]BBB+ rating is based on ICRA's expectation that NPL will continue to benefit from the extensive experience of its promoters and its established relations with the major OEMs. It is expected to report a steady growth in operating income and cash flow generation, translating into a steady improvement in the credit metrics, going forward.

Key rating drivers and their description

Credit strengths

Long-standing experience of promoters and established customer base; repeat orders from OEMs – The promoters of NPL, which was incorporated in 1992, have close to 30 years of experience in the lubrication industry. Their experience and know-how have enabled the company to develop established relationships with multiple OEMs. This has resulted in repeat orders from major OEMs year-on-year, which has helped the operating income to grow at a steady pace in the past. Its clientele includes reputed players such as Kirloskar Oil Engines Limited, Bosch Limited and Escorts Limited.

Healthy growth in sales volumes; growth likely to continue - NPL's financial profile remains comfortable. While the financial profile had moderated in FY2024 owing to the decline in profitability and elevated short-term debt levels, it is expected to improve steadily, going forward. The company has no long-term debt repayments, going forward, leading to a healthy DSCR of 2.91 times as on March 31, 2024 (provisional). The interest coverage moderated to 3.01 times as on March 31, 2024 (provisional), and is expected to improve, going forward.

Consistent support from promoters/group companies in the form of ICDs and unsecured loans, providing financial flexibility - The company uses ICDs and unsecured loans from its sister entity, NPL Bluesky Automotive Private Limited, to fund its working capital requirements. While the amount of these ICDs has significantly reduced and NPL has got its working capital limits enhanced, it can tap these funds to support its liquidity position, if the need arises. ICDs of Rs 3.43 crore are outstanding as on March 31, 2024 (provisional).

Credit challenges

Profitability low and range-bound with large proportion of commoditised products in product portfolio – The margins moderated in FY2024 owing to higher priced raw materials vis-à-vis prevailing finished goods prices and very low margins in the industrial segment, coupled with high marketing expenses to support the retail segment. Most of NPL's revenues is from sales to OEMs and the industrial sector, wherein the margins are thinner than the retail segment. However, the net profit margin as a percentage of sales improved in FY2024 compared to FY2023.
Its products in the retail segment are priced lower than the more established players in the market, constraining its profitability metrics. However, the same is mitigated due to lower overhead costs compared to the established players in the market. ICRA notes that the company is focusing on growing its retail sales and is planning to revamp the design and relaunch the brand in H2 FY2025, which should aid the margins in the coming years.

Exposure to foreign currency-related risks and raw material price fluctuations – NPL remains exposed to raw material price fluctuations with base oil as one of the major raw materials. The company also imports a significant portion of its raw material requirements, which exposes it to foreign currency fluctuation risks. However, ICRA notes that this risk is partially mitigated as it has in-built quarterly price variation clauses with its OEM customers, which protect it from adverse fluctuations.

Working capital-intensive operations – NPL's operations are working capital-intensive, characterised by NWC/OI of 41% as on March 31, 2024 (provisional). While the working capital intensity is expected to moderate going forward, it will continue to be elevated, tempering the company's cash flow metrics.

Liquidity position: Adequate

NPL's liquidity is adequate. The overall working capital requirement has increased due to the increase in base oil prices. The average utilisation of its working capital limits is around 60%, indicating sufficient cushion. Further, NPL has an option to avail ICDs from NPL Bluesky, providing sufficient cushion to the liquidity. However, the company has significantly reduced the dependence on these ICDs as the limits have been enhanced now. ICDs of Rs. 3.43 crore are outstanding as on March,31, 2024.

Rating sensitivities

Positive factors – The ratings can be upgraded if NPL demonstrates a sustained growth in its turnover and profitability with an improvement in the debt coverage metrics and liquidity profile.

Negative factors – ICRA could downgrade NPL's ratings if there is a decline in its revenue and profitability, which will impact the cash flow generation. Moreover, the ratings can be downgraded if there is a sizeable debt-funded capex, or a stretch in the working capital cycle which will impact the liquidity position. Specific credit metrics for downgrade include an interest coverage of less than 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology]
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Nandan Petrochem Limited manufactures genuine oils, greases and specialty oils with a significant pan-India and overseas presence in the lubricating oil market. NPL started its operations with contract blending & filing for public sector undertakings. By virtue of a technical collaboration agreement with Meguin GmbH (Germany), NPL has access to the latest technologies and is marketing the complete product range, from lubricants, greases, transformer oil and white oil/liquid paraffin to pharma grade oil, rubber process oils and specialty lubricants under its brand VELVEX.

Key financial indicators

	FY2023	FY2024*
Operating income	666.3	728.0
PAT	16.0	23.1
OPBDIT/OI (%)	6.0%	5.6%
PAT/OI (%)	2.4%	3.2%
Total outside liabilities/Tangible net worth (times)	1.5	1.3
Total debt/OPBDIT (times)	4.8	4.9
Interest coverage (times)	3.5	3.0

*Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. crore; * Provisional*

Status of non-cooperation with previous CRA

CRA	Status	Date of Release
CRISIL	[CRISIL]B (Stable) ISSUER NOT COOPERATING	July 29, 2024

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)**	**30-Sep-24**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Long term – Others - Interchangeable	Long Term	(202.00)	[ICRA]BBB+ (Stable)	26-JUN-2023	[ICRA]BBB+ (Stable)	17-JUN-2022	[ICRA]BBB+ (Positive)	09-JUN-2021	[ICRA]BBB+ (Stable)
Long term /Short term – Others – Non-fund based	Long Term/ Short Term	245.00	[ICRA]BBB+ (Stable)/ [ICRA]A2	26-JUN-2023	[ICRA]BBB+ (Stable)/ [ICRA]A2	17-JUN-2022	[ICRA]BBB+ (Positive)/ [ICRA]A2	24-MAY-2021	[ICRA]BBB+ (Stable)/ [ICRA]A2
			-	-	-	-	-	09-JUN-2021	[ICRA]BBB+ (Stable)/ [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term non-fund based	Very Simple
Long term - Interchangeable	Simple

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/Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Non-fund based**	NA	NA	NA	245.00	[ICRA]BBB+ (Stable)/ [ICRA]A2
NA	**Interchangeable**	NA	NA	NA	(202.00)	[ICRA]BBB+ (Stable)

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

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Ankit Jain
+91 124 4545 865
ankit.jain@icraindia.com

Himani Sanghvi
+91 79 6923 3048
himani.sanghvi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches