November 18, 2024

# Mehta Petro Refineries Limited: Ratings reaffirmed; outlook revised to Negative

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Short-term non-fund based** | 148.75 | 148.75 | [[ICRA]A3+; reaffirmed |
| **Long term/Short term interchangeable** | (113.0) | (113.0) | [ICRA]BBB / [ICRA]A3+; reaffirmed; outlook revised to Negative from Stable |
| **Long term/Short term unallocated** | 51.25 | 51.25 | [ICRA]BBB / [ICRA]A3+; reaffirmed; outlook revised to Negative from Stable |
| **Total** | **200.0** | **200.0** | |

**Instrument details are provided in Annexure-I*

## Rationale

The revision in the outlook to Negative from Stable reflects Mehta Petro Refineries Limited's (MPRL) sustained profitability pressure in near to medium term, its impact on debt coverage metrics and the reliance on working capital borrowings. ICRA has received the company's FY2024 financials on November 7, 2024.

The reaffirmation of the ratings factors in the extensive track record of MRPL in the solvent industry, benefitting from its established relationship with a diversified customer base due to the multiple product applications across various sectors. The ratings also consider the company's healthy capital structure with gearing at 0.9 times as on March 31, 2024. The ratings note the healthy scale of operations, supported by the realisation and sales volume. However, in FY2024, given the volatility in raw material prices (linked to crude prices), the company has reduced its exposure to the traded goods sold, which usually have low margin, causing the revenues to dip to ~Rs. 645 crore in FY2024 from Rs. 739 crore in FY2023.

The ratings are constrained by the moderation in operating margins, reflected in OPM of 2.2% in FY2024, declining from 6.2% in FY2023 due to the high volatility in raw material prices and stiff competition. An inability to improve the operational profit will exert pressure on the financial risk profile and remains a key monitorable. The company remains exposed to currency fluctuations as imports constitute a significant percentage of the raw material purchase, although the risk is mitigated by MPRL's forex hedging policies. Moreover, intense competition in the market from several domestic and international players limits its ability to fully pass on the price fluctuation.

## Key rating drivers and their description

### Credit strengths

**Established track record in solvent industry**– Mr. Vinod Mehta and Mr. Paresh Mehta are MPRL's key promoters and have an experience of more than three decades in the sector. Over the years, the promoters have established relationships with various key intermediaries and end-customers, helping it to scale up the business. The extensive experience of the promoters will guide the company's future growth.

**Diversified product portfolio and established association with customers across various segments** – MPRL's revenues are primarily derived from the domestic market, such as the paint, printing ink, pesticide and insecticide sectors. These sectors account for ~80% of the total operating income. The diversified product portfolio catering to several industries helps the company adapt to changing market conditions. This mitigates the sector-specific risks to a certain extent. Further, MPRL has a well-diversified clientele. Moreover, its established relationship with customers ensures repeat orders.

Healthy capital structure – The company's capital structure is healthy with gearing at 0.9 times as on March 31, 2024. MRPL's debt profile primarily consists of working capital loans and unsecured loans from promoters and intercorporate deposits as on March 31, 2024.

## Credit challenges

**Moderate operating profitability** – The company's operating profitability has moderated, reflected in OPM of 2.2% in FY2024, declining from 6.2% in FY2023 due to high volatility in raw material prices and stiff competition. Raw materials constitute ~90% of the total value of MPRL's finished products. Thus, its ability to procure the required raw materials at a competitive price is critical to maintain the cost competitiveness, given that raw material prices vary with the movement in crude oil prices. Further, its reputed customer base and a highly fragmented industry structure limit the company's bargaining power and ability to pass on the price risks. However, the overall profit and cash accruals are likely to sequentially improve in the near to medium term.

**Vulnerability to forex risk from imports** – The company is exposed to forex risks as it imports a sizeable portion of the key raw materials. It procured 30-40% of its raw material requirements from the international market in the last two years based on the price differential between the domestic and overseas markets. Escalating import cost due to the rupee's depreciation continues to keep its profitability metrics under check, although the risk is mitigated by MPRL's forex hedging practices.

**Intense competition with limited entry barriers in terms of technology and manufacturing operations** – Low technological complexity and moderate capital investment in setting up a manufacturing plant for solvent products has prompted several smaller players to set up operations. Moreover, because of the low product differentiation, the price competitiveness remains the key to maintaining and/or increasing its market share and building strong relationships with the end customers. Stiff competition with limited entry barriers restricts the margin.

## Liquidity position: Adequate

MPRL's liquidity position is expected to remain adequate, supported by stable cash flows. The average utilisation of its working capital limits over the last 12 months ended September 2024 was around 71%. Further, the overall liquidity position is likely to be adequate with no major debt repayment obligations and limited capital expenditure requirements over the next 12 months.

## Rating sensitivities

**Positive factors –** A rating upgrade is unlikely in the near term owing to the Negative outlook. However, the outlook could be revised to Stable if there is a sustained improvement in its operating margins, debt coverage metrics while maintaining an adequate liquidity position.

**Negative factors –** The ratings may be downgraded if there is a further moderation in profitability, resulting in weak cash accruals and/or elongation in the working cycle impacting the liquidity position.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Chemicals |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the standalone financials of MPRL |

## About the company

MPRL, incorporated in 1993, manufactures and markets solvents, which find application in the production of printing ink, paints, pesticides and other products. The company is promoted and managed by Mr. Vinod Mehta, Mr. Paresh Mehta and their families. It has two manufacturing facilities - at Palghar (Maharashtra) and Dahej (Gujarat). The company's total manufacturing capacity is ~70,000 KL per annum with an aggregate storage capacity of ~5,300 KL.

### Key financial indicators (audited)

| | FY2023 | FY2024 |
|---|---|---|
| **Operating income** | 739.0 | 645.0 |
| **PAT** | 26.8 | 5.8 |
| **OPBDIT/OI** | 6.2% | 2.2% |
| **PAT/OI** | 3.6% | 0.9% |
| **Total outside liabilities/Tangible net worth (times)** | 1.7 | 1.6 |
| **Total debt/OPBDIT (times)** | 2.5 | 7.6 |
| **Interest coverage (times)** | 5.4 | 1.8 |

*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

| | Instrument | Current rating (FY2025) | | | Chronology of rating history for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Date & rating in FY2025 | Date & rating in FY2024 | Date & rating in FY2023 | | Date & rating in FY2022 |
| | | | | Nov 18, 2024 | March 5, 2024 | Dec 23, 2022 | May 30, 2022 | Apr 23, 2021 |
| 1 | **Non-fund based limits** | Short term | 148.75 | **[ICRA]A3+** | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A3 | [ICRA]A3 |
| 2 | **Interchangeable limits** | Long-term /Short term | (113.00) | **[ICRA]BBB(Negative)/ [ICRA]A3+** | [ICRA]BBB(Stable)/ [ICRA]A3+ | [ICRA]BBB(Stable)/ [ICRA]A3+ | [ICRA]BBB-(Stable)/ [ICRA]A3 | [ICRA]BBB-(Stable) / [ICRA]A3 |
| 3 | **Unallocated** | Long-term /Short term | 51.25 | **[ICRA]BBB(Negative)/ [ICRA]A3+** | [ICRA]BBB(Stable)/ [ICRA]A3+ | [ICRA]BBB(Stable)/ [ICRA]A3+ | [ICRA]BBB-(Stable)/ [ICRA]A3 | [ICRA]BBB-(Stable) / [ICRA]A3 |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Non-fund based limits** | Very Simple |
| **Interchangeable limits** | Simple |

| | |
|---|---|
| **Unallocated** | Not applicable |

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 | Non-fund based facilities | NA | NA | NA | 148.75 | [ICRA]A3+ |
| NA | Interchangeable limits | NA | NA | NA | (113.00) # | [ICRA]BBB(Negative)/[ICRA]A3+ |
| NA | Unallocated limits | NA | NA | NA | 51.25 | [ICRA]BBB(Negative)/[ICRA]A3+ |

*Source: Company;# Total utilisation of fund based interchangeable sublimits should not exceed Rs. 113 crore*

*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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## 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.

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