

December 23, 2019

Panama Petrochem Ltd: Ratings assigned to bank lines

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits	6.0	[ICRA]A-(Stable); assigned
Non-fund based limits	73.0	[ICRA]A2+; assigned
Total	79.0	

*Instrument details in Annexure

Rationale

The assigned ratings reflect the established track record of Panama Petrochem Limited (PPL) in the white oil and allied oils business. The ratings also take into account the company's strong customer base and its long-term relationship with reputed companies across multiple industries. The company's product profile is well diversified across various end-user industries such as cosmetics, ink, rubber, textiles, transformer and lubricants sector thereby mitigating the risks from slowdown in a particular sector. The ratings also favourably consider the diversified manufacturing presence of the company through four manufacturing units within India that have been strategically located to cater to different industrial clients for different kinds of oil. Further, the company also has a manufacturing unit in Ras Al Khaimah, UAE under its wholly-owned subsidiary, Panol Industries RMC, which enjoys proximity to the base oil suppliers in the Middle East and caters to the demand for its products in the region. There is a healthy diversification of the company's revenues in both domestic and overseas markets with about 40% of its sales coming from exports. The geographical diversification helps mitigate risks from slowdown in a particular market. The ratings also take into account the comfortable capital structure of the company as reflected by its low gearing of 0.4 times as of March 31, 2019 though the same has increased from 0.1 times as of March 31, 2018 due to increase in short-term debt following increase in working capital intensity during the fiscal. Nonetheless, the same improved to 0.3 times as of September 30, 2019.

The ratings are, however, constrained by vulnerability of the company's profitability to the fluctuations in forex rates and base oil prices which are volatile being a crude oil derivative. The company's operations are also exposed to high competition in the industry from other established players. The company's profitability in H1 FY2020 has been impacted resulting in a 53% YoY decline in operating profits owing to the ongoing demand slowdown in certain sectors accompanied with high competition. However, the company's performance is expected to improve with recovery in demand from key sectors in the near to medium term.

Key rating drivers

Credit strengths

Established track record in the white oil and allied oils business – The company is an established player in the liquid paraffin/white oil business and has more than 35 years of experience in the industry. The company manufactures over 80 variants of oils which are used across multiple industries.

Strong customer profile and geographical diversification of revenues – The company has a strong customer profile including large international FMCG companies such as Dabur and Marico, and reputed players in the textiles, ink, and tyre sectors and has long-term relationship with several of its key clients. The company's customer profile remains well-diversified with the top five customers typically accounting for 25-30% of its total sales. Further, PPL's portfolio remains well diversified across several industry segments thereby mitigating the risks, to an extent, against demand slowdown in a particular sector.

The company's revenues are well-diversified within the domestic and overseas markets. The company's exports typically account for 35-40% of its total standalone sales which are distributed between Africa, Far East, South America and Europe. The company also has operations in the middle east through its subsidiary, Panol Industries RMC. Further, PPL has a diversified presence within India. A geographically diversified revenue base helps mitigate risks against slowdown in a particular market.

Manufacturing units located strategically to cater to demand from different industries – PPL has four manufacturing units in India that have been strategically located to cater to specific industrial clusters within the region. The company's facility in Taloja, Maharashtra is located close to the port and is used for majority of the company's exports. Further, the company has a manufacturing unit in Ras Al Khaimah, UAE which has the advantage of being located close to the base oil suppliers in the Middle East and to the company's customers in the region.

Comfortable capital structure with no long-term debt – The company has a comfortable capital structure with only short-term debt on its books. PPL has maintained a low gearing of 0.1-0.2 times over the last three- four fiscals, however, the same increased to 0.4 times as of March 31, 2019 owing to increase in short-term debt following increase in working capital intensity. Nonetheless, the gearing improved slightly to 0.3 times as of September 30, 2019. The company has undertaken consistent capacity expansions across its manufacturing units, all of which have been funded through internal accruals.

Credit weaknesses

Vulnerability of profits to forex fluctuations; sensitivity to base oil prices – Given the nature of the business, the company remains exposed to the movement in base oil prices, which remain volatile being a crude oil derivative. However, the company is able to pass on any significant increase in base oil prices with the provision to set prices on the monthly basis in the annual contracts with its customers. In case of exposure to forex fluctuations, the company's exports provide a natural hedge up to 35-40%. For the remaining exposure, the company has an active hedging policy whereby it hedges a part of the exposure through forward covers.

High competition in the industry - The company's operations are exposed to high competition from other established players, few of which have bigger scale of operations. PPL has faced a contraction in its operating margins in H1 FY2020 owing to the ongoing slowdown and intense competition for market share among different players.

Liquidity Position: Adequate

PPL has a healthy liquidity profile supported by adequate buffer in its working capital limits. Further, the company has no long-term debt repayment obligations. The company has had positive cash flows from operations and positive retained cash flows in FY2017 and FY2018, however, the same turned negative in FY2019 with increase in working capital intensity. The company has incurred capex over the last two fiscals and is not planning to undertake any significant capex in the medium term. All regular capex and any brownfield expansion capex at the subsidiary level is expected to be funded through PPL's internal accruals.

Rating Sensitivities

Positive triggers - Increase in scale of operations and improvement in profitability and cash accruals while maintaining moderate working capital intensity.

Negative triggers - Decline in a) scale of operations or b) further decline in profitability with operating margins reaching below 5% or c) stretch in the working capital cycle leading to increase in debt levels and moderation of debt coverage metrics on a consistent basis.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financial profile of Panama Petrochem Limited. As of March 31, 2019, PPL had one wholly-owned subsidiary. The subsidiary of PPL that has been considered is enlisted in Annexure-2.

About the company:

Incorporated in 1982, Panama Petrochem Limited (PPL) is a manufacturer and exporter of over 80 variants of speciality petrochemicals. The company's key products include liquid paraffin oils (white oils), petroleum jelly, ink oil, rubber oil, coning oil, and transformer oil. The company has four manufacturing units within the country in Ankleshwar (Gujarat), Dahej (Gujarat), Taloja (Maharashtra) and Daman. PPL's products are used across several industry segments such as printing ink, cosmetics, pharmaceuticals, rubber, resin, engineering and chemicals. The company also has manufacturing presence in the Middle East through its wholly-owned subsidiary, Panol Industries RMC, FZE situated at Ras Al Khaimah, UAE. PPL has a consolidated manufacturing capacity of 230,000 metric tons per annum (MTPA).

Key Financial Indicators (consolidated) - audited

	FY2018	FY2019
Operating Income (Rs. crore)	1,326.3	1,269.3
PAT (Rs. crore)	61.0	51.9
OPBDIT/ OI (%)	8.2%	8.8%
RoCE (%)	28.5%	20.1%
Total Debt/ TNW (times)	0.1	0.4
Total Debt/ OPBDIT (times)	0.4	1.4
Interest coverage (times)	7.9	4.5
NWC/ OI (%)	17%	31%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2020)			Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
				23-Dec-19	-	-	-
1	Fund based limits	Long Term	6.0	-	[ICRA]A- (Stable)	-	-
2	Non-fund based limits	Short Term	73.0	-	[ICRA]A2+	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
--	Fund based limits	-	-	-	6.0	[ICRA]A- (Stable)
--	Non-fund based limits	-	-	-	73.0	[ICRA]A2+

Source: Panama Petrochem Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Panol Industries RMC FZE, UAE	100.00%	Full Consolidation

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