



Press Release

MPCL Industries Limited

November 12, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facilities	10.00	IVR BBB+/Stable Outlook (IVR Triple BPlus with Stable Outlook)	Reaffirmed
2.	Short Term Bank Facilities	218.44 (Enhanced from Rs. 106.45)	IVR A2 (IVR A Two)	Reaffirmed
3.	Long Term/ Short Term Bank Facilities	29.00 (Enhanced from Rs. 15.00)	IVR BBB+/ Stable Outlook & IVR A2	Reaffirmed
4.	Proposed Limit	42.56 (Reduced from Rs 43.55)	IVR A2 (IVR A Two)	Reaffirmed
	Total	300.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of MPCL Industries Limited (MPCL) continues to draws comfort from its experienced promoters, diversified product and customer base , order backed nature of its business and efficient working capital cycle. The ratings also positively consider continuous improvement in its scale of operations with steady demand prospects of petrochemical products and refrigerants, satisfactory capital structure with strong debt protection metrics and healthy liquidity. However, these rating strengths are partially offset by its exposure to fluctuations in base oil prices and forex rates and susceptibility of its business to regulatory changes both in India & overseas and thin profitability

Key Rating Sensitivities:

Upward Factor:

- Growth in scale of operation with improvement in profit margins leading to improvement in cash accruals and liquidity position on a sustained basis
- Improvement in the capital structure and debt protection metrics
- Improvement in working capital cycle



Press Release

Downward factor:

- Deterioration in scale of operation and/or deterioration in profitability impacting the debt protection metrics on a sustained basis
- Deterioration in the capital structure
- Elongation in the operating cycle impacting the liquidity
- Any adverse regulatory changes

List of Key Rating Drivers with Detailed Description

Key Rating Strength

- **Experienced promoters**

The company was established under the guidance of Mr. SatyaPal Goyal who has over 40 years of experience in trading operations of petroleum and petrochemical products. The promoters are well assisted by a team of professionals having relevant industry experience in the day-to-day operations. Long-standing presence of the promoters in the industry has helped the company to establish healthy relationship with its customers and suppliers and helped the Company to get repetitive orders from its customers. The Company is likely to benefit from its promoters extensive experience going forward.

- **Order backed nature of business**

The company operations are mostly order backed in nature (~80-85% of the purchase is backed by a confirmed order) wherein it receives orders from its customers based on which it procures base oil and other variants from the refineries (mostly imports), leading to minimal inventory holding risk with respect to the trading segment.

- **Diversified product and customer base**

The company has diversified product portfolio, which reduces the vulnerability to the demand risks associated with a single product. Moreover, the company's customers include Automotive and industrial lubricant manufacturers, Marine & Shipping Industry, many other speciality product manufacturers and various users of liquid gases. The company's customer base with its exposure to many industries and companies in different sectors is fairly diversified.



Press Release

- **Continuous scale up of operations**

The total operating income of the company has witnessed an increasing trend with a CAGR of ~29.18% during FY19-FY21 with y-o-y growth of 81.66% in FY21. The total operating income increase from Rs507.31 crore in FY19 to Rs 600.78 crore in FY20 to Rs 1092.88 crore in FY21. The growth in the revenue was mainly driven by improvement in oil segment (revenue from oil segment improved from ~Rs.421.09 crore in FY19 to ~Rs.510.54 crore in FY20 to ~ Rs 998.22 crore in FY21). The growth in the Oil segment is mainly driven by expansion in its distribution network by adding new customers and geographies leading to increase in volume sales coupled with increase in sales realisations. Revenue growth is also supported by addition of new plants facilitating a larger sales base. On the other hand, Gas segment also witnessed a moderate growth from ~Rs.83.17 crore in FY19 to ~Rs.85.53 crore in FY20 to ~ Rs 86.87 crore in FY21. The company gradually diversified its product portfolio in its both segments, which also underpinned growth in its both segments. With an increase in scale of operations, the profitability has also improved.

- **Strong debt protection metrics**

The debt protection metrics of the company remained comfortable over the years. The interest coverage ratio remained strong at 5.31x as on March 31, 2020 and 16.49x as on March 31, 2021. The gross cash accrual of company witnessed an improvement from Rs 12.82 crore in FY20 to Rs 62.66 crore as against repayment of Rs 1.23 crore in FY21. Total debt to GCA improved from 8.31 years in FY20 to 1.61 FY21 driven by decrease in decrease in working capital utilisation and improvement in GCA. The debt protection metrics are likely to remain strong over the medium term.

- **Satisfactory capital structure**

The overall gearing is comfortable at 0.91x (including LC acceptance to fund its working capital requirement) as on March 31, 2021 as compared to 1.89x as on March 31, 2020. The total debt comprises of Rs 0.19 crore of term debt along with repayment of Rs1.23 crore and working capital limits of Rs99.59 crore as on March 31, 2021. However, Total indebtedness of the company as reflected by TOL/ATNW improved from 2.35x as on March 31, 2020 to 1.56x as on March 31, 2021 driven by decrease in working capital limits and steady accretion of profit to net worth.



Press Release

- **Healthy liquidity**

The liquidity profile is supported by sizeable free cash balances along with unutilised fund-based borrowing limits available with the company. The company has strong healthy liquidity marked by its strong accruals against negligible repayment obligations attributable to low long-term debt in its capital structure and has unencumbered cash and bank of Rs 34 crore as March 31, 2021. Further, the average utilisation of its working capital limit also remained comfortable at ~11% in the last 12 months ended on September 2021 indicating an adequate liquidity buffer. Moreover, the company has unutilised cash credit limit of ~Rs.25 crore as on March 31, 2021.

- **Steady demand prospects of petrochemical products and refrigerants**

India imports a large quantity of base oil; and increase in prices of base oil is a positive indicator for steady industry outlook in medium term for petrochemical products, this will benefit the traders like MPCL Industries Limited to scale-up the business despite stiff competition exists. MPCL has been increasing the application of its end products like refrigerants being used for cold storage of food products and essential items, EPC companies for real estate maintenance, selling base oil and other variants to the end use industry like Pharma, Automobile, textile industry, etc.

- **Efficient working capital cycle**

The Working Capital Cycle of the Company has also reduced from 63 days in FY20 to 41 days in FY21 due to reduction in collection period and inventory period from 52 days, 26 days to 37 days, 16 days in FY21. The current and quick ratios remained moderate at 1.54x and 1.20x respectively as on March 31, 2021.

Key Rating Weaknesses

- **Susceptible to regulatory changes both in India and overseas**

Base oil is an important commodity traded in the international market, and trading in base oil is highly influenced by several government policies and regulations, which changes from time to time.



Press Release

- **Thin profitability**

The profit margins of the company remained thin mainly due to its limited value additive nature of the business. The profitability could be further impacted by the proportion of low-margin products to high-margin products in the complete product portfolio in addition to any incidental expenses that may further reduce the profitability. The EBITDA margin of the company hovered in the range of ~4%-7.7% and the PAT margin hovered in the range of ~2.0%-5.6% during FY19-FY21. The Gas division of the company generally fetches higher margin. However, with steady increase in revenue from Oil division in overall revenue mix the operating profit margin witnessed improvement in FY21. Further, increase in interest expenses attributable to increase in working capital utilisation to support incremental scale of operations

- **Fluctuations in Base Oil Prices and Forex rates**

The profitability is also exposed to the volatility in forex rates due to its high imports. Further, any adverse movement in base oil prices could lead to inventory losses. However, the company imports are primarily backed by orders. Nonetheless, the low inventory levels reduce such exposure to some extent. Moreover, the company also has price protection clause to protect itself from base price fluctuations. The company hedges its foreign currency exposure through forward contracts. As on March 31, 2021, the company has foreign currency exposure of Rs.191.77 Cr out of which Rs.112.18 Cr is hedged through forward and derivatives, Rs.51.56 Cr against the natural hedge and Rs.28.03 Cr is unhedged portion.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity –Strong

MPCL has earned a GCA of Rs 62.66 crore as against it's minimal debt obligation of Rs 1.23 crore as on March 31,2021. The company has unencumbered cash and bank of Rs 34 crore



Press Release

as March 31, 2021 and has unutilised working capital limit of Rs 25 crore. Further, the average utilisation of its working capital limit also remained comfortable at ~11% and non fund based limit utilisation of ~ 67% in the last 12 months ended on September 2021 indicating an adequate liquidity buffer. The company has a Current Ratio of 1.54x as of March 31, 2021. Moreover, the company is expected to generate cash accruals in the range of Rs.50-61 crore as against its debt servicing obligation of ~Rs.0.24 crore during FY22-24 attributable to low long-term debt in its capital structure.

About the Company

Incorporated in 1993 by Mr. Satyapal Goyal and family, MPCL Industries Limited (MPCL, erstwhile, Mangali Petrochem Limited) is engaged in procurement and distribution of various Petroleum and Petrochemical products like Base Oils, Lubricating oils, Greases along with manufacturing of Refrigerant (Gas), which are used in Air Conditioners, Refrigerators, Chilling Plants, Cold Chain Systems etc. MPCL has five repackaging units plants located in Hisar (Haryana, Taluja Chemical Zone, Mumbai (Maharashtra) and Chennai (Tamilnadu), Silvasa having an aggregate installed capacity of 7500 MT and 60,000 KL. In its Refrigerant segment, the company developed its own brand “Fluoro” and a distribution network of about 150 active dealers across the country.

Initially, the company was mainly trading petroleum products to dealers who were supplying to the end user industries such as Automobile, Marine & Shipping, etc. In 2003, Mr. Rohit Goyal (son of Mr. Satyapal Goyal) joined the business as Chief Executive Officer.

MPCL has a wholly owned subsidiary, MPCL PTE Ltd. (MPCL PTE) in Singapore for distribution of various petroleum and petrochemical products at overseas market. The subsidiary had been incorporated in August 2018. This enables the company to rationalise its distribution cost and expand its international customer base.

Financials (Standalone):

For the year ended*/As on	(Rs. crore)	
	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	600.78	1092.88
EBITDA	20.99	84.67
PAT	12.57	61.83
Total Debt	106.62	101.01



Press Release

Tangible Net worth	56.80	118.63
EBITDA Margin (%)	3.49	7.75
PAT Margin (%)	2.08	5.64
Overall Gearing Ratio (x)	1.89	0.91

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			July 30,2021	Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022 (Dated July 30,2021)	Date(s) & Rating(s) assigned in 2020-2021 (Dated April 30,2020)	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	10.00	IVR BBB+ /Stable	IVR BBB+ /Stable	IVR BBB/Stable	-	-
2.	Letter Of Credit	Short Term	218.44	IVR A2	IVR A2	IVR A3+	-	-
3.	LC/ BG/ SBLC/ CC/ WCDL	Long Term / Short Term	29.00	IVR BBB+/ IVR A2	IVR BBB+/ IVR A2	IVR BBB /Stable; IVR A3+	-	-
4.	Proposed Limit	Short Term	42.56	IVR A2	IVR A2	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Ms. Smriti Jetly

Tel: (011) 24611910

Email: sjetly@infomerics.com

Name: Mr. Om Prakash Jain

Tel: (011) 24611910

Email: opjain@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities



Press Release

and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	10.00	IVR BBB+/Stable
Long Term/ Short Term Bank Facilities-LC/ BG/ SBLC/ CC/ WCDL	-	-	-	29.00	IVR BBB+/IVR A2
Short Term Bank Facilities–Letter Of Credit	-	-	-	218.44	IVR A2
Proposed Limit	-	-	-	42.56	IVR A2

Annexure 2: List of companies considered for consolidated analysis: N.A. Standalone Approach followed

Annexure 3: Facility wise lender details <https://www.infomerics.com/admin/prfiles/Lender-MPCL-12-11-21.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable



Press Release

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Cash Credit	Simple
2.	SBLC/WCDL	Simple
3.	Letter of Credit	Simple

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

