Press Release

MPCL Industries Limited

April 30, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facilities	5.00	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)	Assigned
2.	Short Term Bank Facilities	113.34	IVR A3+(IVR A Three Plus)	Assigned
3.	Long Term/ Short Term Bank Facilities	56.66	IVR BBB/ Stable Outlook & IVR A3+	Assigned
	Total	**175.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of MPCL Industries Limited (MPCL) draws comfort from its experienced promoters, diversified product and customer base and order backed nature of its business. The ratings also positively considers continuous improvement in its scale of operations with steady demand prospects of petrochemical products and refrigerants, satisfactory capital structure with healthy 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. The ratings also consider its thin profitability and working capital intensive nature of operations.

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

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 Strengths

Experienced promoters

The company was established under the guidance of Mr. Satya Pal 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 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 , various air conditioner OEM's (LG, Voltas, Godrej, etc) and other users of liquid refrigerants gases. The company's customer base with its exposure to many industries and companies in different sectors is fairly diversified.

Continuous scale up of operations

The total operating income of the company has witnessed an increasing trend with a CAGR of ~27% during FY17-FY19 and stood at Rs.508.47 crore in FY19 as compared to Rs.247.75 crore in FY17. The growth in the revenue was mainly driven by steady improvement in Oil segment (revenue from oil segment improved from ~Rs.198 crore in FY17 to ~Rs.421 crore in FY19). The growth in the Oil segment was mainly backed by gradual expansion in its distribution network leading to increase in volume sales coupled with increase in sales realisations. On the other hand, Gas segment also witnessed a moderate growth from ~Rs.53 crore in FY17 to ~Rs.83 crore in FY19. The company gradually diversified its product portfolio in its both segments, which also underpinned growth in its both segments. Till March 10, 2020, the company has achieved a revenue of ~Rs.580 crore.

Satisfactory capital structure

The overall gearing is comfortable at 0.09x as on March 31, 2019. To fund its working capital requirements the company is largely depends on LC acceptance creditors. The overall gearing (including LC acceptances) stood at 1.81x. However, total indebtedness of the company as reflected by TOL/TNW improved from 3.15x as on March 31, 2018 driven by decrease in current liability and steady accretion of profit to net worth and remained satisfactory at 2.71x as on March 31, 2019.

Healthy debt protection metrics

The debt protection metrics of the company remained healthy over the years marked by its satisfactory profitability with strong gross cash accruals. The gross cash accruals of the company witnessed a steady improvement from Rs.5.20 crore in FY17 to Rs.11.36 crore in FY19. The interest coverage remained strong over the years and though moderated in FY19 due to increase in debt levels mainly to fund working capital requirements to fund increased scale of operation continues to remain healthy at 8.63x. Total debt to GCA remained moderate at 7.05 years in FY19. Further during FY19, the company has earned a gross cash accruals Rs.11.36 crore as against its debt repayment obligation of Rs.1.06 crore.

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 liquid assets to the tune of Rs.39 Crore (as on March 31, 2020). Further, the average utilisation of its working capital limit also remained comfortable at ~22% in the last 12 months ended on January 2020 indicating an adequate liquidity buffer. Moreover, the company has unutilised cash credit limit of ~Rs.9 crore (out of sanctioned Rs.16 crore) as on March 31, 2020.

Steady demand prospects of petrochemical products and refrigerants

India imports a large quantity of crude; and a sharp drop in its prices has benefitted the economy by curbing the current account deficit despite the rise in the quantity of imports. The same provides ample growth opportunities to traders like MPCL 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.

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.

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 ~2.7%-4% and the PAT margin hovered in the range of ~1.8%-2.2% during FY17-FY19. The Gas division of the company generally fetches higher margin.

However, with steady increase in revenue from the Oil division in overall revenue mix the operating profit margin witnessed moderation in FY19. Further, increase in interest expenses attributable to increase in working capital utilisation to support incremental scale of operations also resulted in moderation in PAT margin.

Exposure to 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, movement in Base oil prices could lead to inventory losses for the company in a falling oil price scenario. 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 oil price fluctuations. The company hedges its foreign currency exposure through forward contracts. As on December 31, 2019, the company has foreign currency exposure of Rs.124.52 Cr out of which Rs.88.71 Cr is hedged through forward and derivatives, Rs.20.14 Cr against the natural hedge and Rs.15.67 Cr is unhedged portion.

Working capital intensive nature of operations

The operation of the company is working capital intensive due to its elongated collection period. The company gradually rationalised its payment terms with its customers and reduce the average collection period from ~100 days in FY17 to ~60 days in FY19. The Working Capital Cycle of the Company has also reduced from 74 days in FY18 to 62 days in FY19.The current and quick ratios remained moderate at 1.28x and 0.85x respectively as on March 31, 2019.

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.11.36 crore compared to its debt obligation of Rs.1.06 crore in FY19. The liquidity profile is supported by sizeable free cash balances along with unutilised fund-based borrowing limits available with the company. The company has liquid assets to the tune of Rs.39 Crore (as on March 31, 2020). Further, the average utilisation of its working capital limit also remained comfortable at ~22% in the last 12 months ended on January 2020 indicating an adequate liquidity buffer. Moreover, the company is expected to generate cash accruals to the tune of Rs.18-22 crore as against its debt servicing obligation of ~Rs.5-6 crore during FY21-22 attributable to low long-term debt in its capital structure. Besides, the company has unutilised cash credit limit of ~Rs.9 crore (out of sanctioned Rs.16 crore) as on March 31, 2020.

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 three repackaging units plants located in Hisar (Haryana, Taluja Chemical Zone, Mumbai (Maharashtra) and Chennai (Tamilnadu) having an aggregate installed capacity of 5000 MT and inhouse storage of 4000MT at Silvassa (Gujrat). 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):

(Rs. crore)

For the year ended*/As on	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	333.99	508.47
EBITDA	13.51	18.10
PAT	7.40	10.29

For the year ended*/As on	31-03-2018	31-03-2019
	Audited	Audited
Total Debt	57.36	80.11
Tangible Net worth	33.94	44.23
EBITDA Margin (%)	4.05	3.56
PAT Margin (%)	2.21	2.02
Overall Gearing Ratio (x)	1.69	1.81

**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 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	5.00	IVR BBB /Stable	-	-	-
2.	Letter Of Credit	Short Term	113.34	IVR A3+	-	-	-
3.	LC/ BG/ SBLC/ CC/ WCDL	Long Term / Short Term	56.66	IVR BBB/ IVR A3+	-	-	-

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	Name: Mr. Avik Podder
Tel: (011) 24611910	Tel: (033) 46022266
Email: sjetly@infomerics.com	Email: apodder@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 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	-	-	-	5.00	IVR BBB/Stable
Long Term/ Short Term Bank Facilities - LC/ BG/ SBLC/ CC/ WCDL	-	-	-	56.66	IVR BBB/IVR A3+
Short Term Bank Facilities – Letter Of Credit	-	-	-	113.34	IVR A3+