Columbia Petro Chem Private Limited
July 04, 2023

Ratings:

Instrument / Facility	Amount (INR Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	75.00	IVR A/ Stable (IVR Single A with Stable Outlook)	Revised from IVR A+/Stable (IVR A Plus with Stable Outlook)	Simple
Short Term Bank Facilities	610.00	IVR A1 (IVR A One)	Revised from IVR A1+ (IVR A One Plus)	Simple
Total	**685.00**	**Rupees Six Hundred and Eighty Five Crore Only**		

Details of Facilities are in Annexure 1

Detailed Rationale:

The revision in rating to the bank facilities of Columbia Petro Chem Private Limited (CPCPL) takes into account the decline in income and profitability levels, from its previous period as well as against estimates shared during the last rating assignment, vulnerability to forex losses with inadequate hedging policy so as to reduce the impact on profitability remains a key rating concern Further, working capital intensive nature of operation and susceptibility of profitability to volatility in raw material prices and increasing forex loss remain monitorable.
However, the rating continues to derive strength from the long track record of operations, experienced promoters and management retention of reputed clientele and comfortable capital structure and debt coverage indicators.

Key Rating Sensitivities:

Upward Factors:

- Improve its EBITDA margin above 8% on a sustained basis.

- Maintain capital structure below 1x and debt protection metrics below 5x on sustained basis.

Downward Factors:

- Any decline in total operating income achieved during FY23(Prov.).
- Vulnerability to forex losses in the absence of adequate hedging policy so as to reduce the impact on profitability.
- Any elongation in working capital cycle or deterioration in cash flow from operation which impacts liquidity indicator fall below unity.

Key Rating Drivers with detailed description

Key Rating Strengths :

Long track record of operations and experienced management

CPCPL was incorporated in 1987 with an object to manufacture petroleum specialty products. CPCPL is the flagship company of the Halwasiya Group, promoted by Mr. Kuldeep Halwasiya, who is the Chairman and Managing Director and Mr. Pradeep Halwasiya. Mr. Kuldeep Halwasiya has nearly four decades of experience in petroleum speciality products. Another director of CPCPL, Mr. Rajdeep Halwasiya, has around three decades of experience in petroleum speciality products. The directors are assisted by a team of professionals.

Wide application of the products and reputed clientele

CPCPL manufactures a wide range of pharmaceutical / food grade liquid paraffins and technical grade white oils from base oils. Liquid paraffins are widely used in medical formulations, ointments, laxatives, repository vaccines, hair oils, hair creams, cosmetics, facial creams and lotions, gelatin capsules, food preservatives, protective coatings for fruits and vegetables, veterinary preparations, egg preservatives and as secondary plasticizer in plastic and petrochemical industry. Technical grade white oils of wide viscosity range find extensive usage in textile industry for non-staining lubrication, incense - perfume manufacture, plastic, paper and cosmetic industries and several oil based formulations, lotions, shoe polish and petroleum jelly manufacturing industries. CPCPL enjoys approvals from all the major pharmaceutical and FMCG companies in India and abroad.

Comfortable capital structure and debt coverage indicators

The financial risk profile marked by debt to equity ratio stood comfortable at 0.02x and 0.03x as on March 31, 2022 and March 31, 2021 respectively. Further, the capital structure denoted by overall gearing stood comfortable at 0.08x as on March 31, 2022 as against 0.04x as on March 31, 2021 slightly moderated due to increase in bank line as on balance sheet date. Further, the comfort in ratio is also backed by accretion of profit and healthy tangible networth base at Rs.195.39 crore as on March 31, 2022 as against Rs.171.66 crore as on March 31, 2021.

The debt protection metrics marked by total debt to GCA stood at 0.58x in FY22 as against 0.39x in FY21 and remained comfortable due to moderate cash accrual as on balance sheet date. The total debt majorly comprises of Cash Credit, unsecured loans from related parties respectively. Furthermore, the interest coverage ratio stood modest at 1581.52x in FY22 improved as against 14.76x in FY21 mainly on account healthy EBITDA in absolute terms.

Key Rating Weaknesses:

Decline in total operating income and profitability level

The company had achieved total operating income of Rs.1126.67 crore in FY22 increased by 12.48% from Rs.1002.19 crore in FY21 due to increase in volume of sales during the year. However, company’s total operating income de-grew to Rs. 942.98 crore in FY23(Prov.) as the company had implemented conservative approach towards the sales due to shortage of supply of crude oil globally and nation wide industry impact due to back of Russia -Ukraine war.

The company’s profitability marked by EBITDA margin though declined although continued to remain satisfactory at 2.73% in FY22 as against 3.92% in FY21 due to volatility of raw material such as base oil, paraffin oil etc had resulted declined in margin. Moreover, with dip in TOI in FY23(Prov.) owing to conservative approach towards the sales the EBITDA margin stood at 3.50% in FY23(Prov.).

Further, the PAT margin remained satisfactory at 2.11% in FY22 moderated as against 1.42% in FY21 due to decrease in Interest and finance charges incurred during the year. In FY23(Prov.) the PAT margin declined to 1.10% due to overall decline in operating profit.

Working capital intensive nature of operation

Being in commodity segment, with works concentrated towards manufacturing of petroleum specialty products namely liquid paraffin, white oils and transformer oil through the process of refining imported and indigenous base oils. the company is into working capital-intensive nature of operations. The operating cycle of the company improved and stood comfortable at 8 days in FY22. The inventory period stood stable up to two months in FY22. The average WIP for the business remains nil. Around 100% of the raw material are imported which are LC backed hence creditor days remained high and are therefore the suppliers are settled within 180 days while it allows credit period upto 60 days to its customers. The company's reliance on working capital borrowing stood at Nil for last twelve months ended March, 2023.

Susceptibility of profitability to volatility in raw material prices

The basic raw material required by CPCPL is base oil, the price of which is volatile in nature. Hence, the profitability of CPCPL is exposed to variations in raw material prices. However, the same is mitigated to an extent as CPCPL has long term relations with almost all the major base oil producing refineries in the world and has strategic tie-up in the form of long-term contracts with them for regular supplies of various grades of base oil.

Susceptibility of profitability to foreign exchange fluctuation

CPCPL imports around 98% of its raw material and derives around 15% of its sales from exports. In FY22 its foreign exchange loss was Rs.9.85 crore (~30% of PBT) as against Rs.6.06 crore (~25% of PBT) in FY21. However, the foreign exchange loss were at Rs.22.23 Crores as per FY23 (provisional) (~67% of PBT) ; CPCPL's PAT was Rs.14.21 Crore for full year ended March 31, 2021, Rs. 23.88 Crore for full year ended March 31, 2022 which decreased substantially to Rs.10.40 Crore for full year ended March 31, 2023, post having nil unhedged exposure as informed by the Company.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria for rating outlook

Liquidity-Adequate

The liquidity profile of the company is adequate marked by its sufficient cash accruals to meet its debt obligation. The average fund-based bank limit utilization remained unutilized as company is able to meet its working capital through its internal accruals for the last twelve months ending March 2023 and the average non-fund-based utilization limit stood 58% for the last twelve months ending March 2023. For FY22 and FY23 the Company has comfortable interest coverage ratio. The Company's cash & cash equivalents for the year ended March 2022 are at Rs. 2.71 crores and Rs.35.80 crore as on March 31, 2023. The current ratio and quick ratio for the company stood at 1.41x and 0.77x for FY23 as against 1.39x and 0.53x in FY22. Further, the company has FD with maturity of more than 12 month of Rs.31.91 crore as on March 31, 2022 increased to Rs.43.66 crore as on March 31, 2023 envisaging sufficient liquidity coverage for medium term.

About the Company:

Incorporated in 1987, Mumbai-Maharashtra based CPCPL, promoted by Mr. Kuldeep Halwasiya, is a part of Halwasiya Group. CPCPL is engaged in manufacturing of petroleum specialty products namely liquid paraffin, white oils and transformer oil through the process of refining imported and indigenous base oils. The products are used in pharmaceutical and cosmetics industries, except transformer oil which is used by power stations and State Electricity Boards.

Financials: Standalone

For the year ended / INR. Crore*	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	1002.19	1126.67
EBITDA	39.32	30.77

PAT	14.27	23.88
Total Debt	7.48	15.50
Tangible Net Worth	171.66	195.39
Ratios		
EBITDA Margin (%)	3.92	2.73
PAT Margin (%)	1.42	2.11
Overall Gearing Ratio (x)	0.03	0.06

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: *BWR vide its press release dated January 10, 2023, has classified the case under Issuer Not Co-operating category on account of non-submission of relevant information.*

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument /Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (April-05, 2022)	Date(s) & Rating(s) assigned in 2020-21	Date(s) &Rating(s) assigned in in 2019-20
1.	Long Term Bank Facility - Cash Credit	Long Term	75.00	IVR A/Stable	IVR A+/ Stable	-	-
2.	Short Term Bank Facility - Letter of Credit	Short Term	605.00	IVR A1	IVR A1+	-	-
3.	Short Term Bank Facility - Bank Guarantee	Short Term	5.00	IVR A1	IVR A1+	-	-

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About Infomerics:

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Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	Revolving	75.00	IVR A/ Stable
Letter of Credit	-	-	-	605.00	IVR A1
Bank Guarantee	-	-	-	5.00	IVR A1

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-columbia-jul23.pdf

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

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