Press Release

MPCL Industries Limited

July 30, 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 B Plus with Stable Outlook)	Upgraded
2.	Short Term Bank Facilities	150.00	IVR A2 (IVR A Two)	Upgraded
3.	Long Term/ Short Term Bank Facilities	15.00	IVR BBB+/ Stable Outlook & IVR A2	Upgraded
	Total	**175.00**		

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

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 , various air conditioner OEM's (LG, Voltas,Godrej,etc) and other users of liquid refrigerants gases various users of liquid 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 ~34.50% during FY19-FY21 with y-o-y growth of 81.67% in FY21.The total operating income increase from Rs507.31 crore in FY19 to Rs 600.78 crore in FY20 to Rs 1093.14 crore in FY21(Prov). 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(Prov). 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 17.02x as on March 31,2021(Prov). The gross cash accrual of company witnessed an improvement from Rs 12.82 crore in FY20 to Rs 64.19 crore as against repayment of Rs 1.17 crore in FY21(Prov). Total debt to GCA improved from 8.31 years in FY20 to 1.43 FY21(Prov) driven by decrease in debt level to fund working capital requirements 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 0.76x (including LC acceptance to fund it's working capital requirement) as on March 31,2021(Prov) as compared to 1.88x as on March 31,2020.The total debt comprises of Rs 0.24 crore of term debt along with repayment of Rs1.17 crore and working capital limits of Rs 90.19 crore as on March 31,2021(Prov) However, Total indebtedness of the company as reflected by TOL/TNW improved from 2.34x as on March 31,2020 to 1.37x as on March 31,2021(Prov) driven by decrease in working capital limits and steady accretion of profit to net worth .

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 ~32% in the last 12 months ended on March 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(Prov) due to reduction in collection period and inventory period from 52 days,26 days in FY20 to 37days,16 days in FY21(Prov).The current and quick ratios remained moderate at 1.58x and 1.22x respectively as on March 31, 2021(Prov).

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 ~4%-7.9% and the PAT margin hovered in the range of ~2.0%-5.8% 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 crude 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 64.19 crore as against it's minimal debt obligation of Rs 1.17 crore as on March 31,2021(Prov). The company has unencumbered cash and bank of Rs 34 crore 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 ~32% in the last 12 months ended on March 2021 indicating an adequate liquidity buffer. The company has a Current Ratio of 1.58x as of March 31, 2021(Prov). 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):

(Rs. crore)

For the year ended*/As on	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	600.78	1093.14
EBITDA	20.99	87.16
PAT	12.57	63.29
Total Debt	106.62	91.60
Tangible Net worth	56.80	120.09
EBITDA Margin (%)	3.49	7.97
PAT Margin (%)	2.08	5.78

Overall Gearing Ratio (x)	1.88	0.76

**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)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	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 (Dated April 30,2020)	-	-
2.	Letter Of Credit	Short Term	106.45	IVR A2	IVR A3+ (Dated April 30,2020)	-	-
3.	LC/ BG/ SBLC/ CC/ WCDL	Long Term / Short Term	15.00	IVR BBB+/ IVR A2	IVR BBB /Stable; IVR A3+ (Dated April 30,2020)	-	-
4.	Proposed Limit	Short Term	43.55	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.

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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.

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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	-	-	-	15.00	IVR BBB+/IVR A2
Short Term Bank Facilities – Letter Of Credit	-	-	-	106.45	IVR A2
Proposed Limit	-	-	-	43.55	IVR A2

Annexure-II: Facility Wise Lender Details (https://www.infomerics.com/admin/prfiles/Lenders-MPCL-Industries-30july21.pdf)