December 23, 2022

Mehta Petro Refineries Limited: Ratings upgraded to [ICRA]BBB(Stable)/[ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term non-fund based	148.75	148.75	[ICRA]A3+; upgraded from [ICRA]A3
Long term/Short term interchangeable	(75.0)	(104.0)	[ICRA]BBB(Stable)/[ICRA]A3+; upgraded from [ICRA]BBB-(Stable)/ [ICRA]A3
Long term/Short term unallocated	26.25	26.25	[ICRA]BBB(Stable)/[ICRA]A3+; upgraded from [ICRA]BBB-(Stable)/ [ICRA]A3
Total	**175.0**	**175.0**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the ratings factor in Mehta Petro Refineries Limited's (MPRL) sustained increase in scale with improved profitability and liquidity position. ICRA notes that the overall profit and cash accruals from the business witnessed a steady growth over the past two years, driven by increase in realisation and sales volume. The rise in volumes was supported by a larger market share through increase in business from existing customers as well as addition of new customers, and an expanded product basket comprising large new suppliers. Further, the change in the revenue mix in favour of higher margin manufactured products helped improve the operating profits in 7M FY2023 and this is likely to sustain, going forward, supporting the overall financial risk profile and liquidity position. Also, the coverage indicators remain comfortable and are expected to remain healthy in the medium term. The ratings also factor in the extensive track record of MPRL in the solvent industry, benefitting from its established relationships with a diversified customer base due to the multiple product applications across diverse sectors.

The ratings are constrained by the moderate operating margins, though the same improved to 6.4% in 7M FY2023 from 4.3% in FY2022. The operating margin continues to be moderate due to high raw material prices and stiff competition. The company remains exposed to currency fluctuations as imports constitute a significant percentage of the raw material purchase, although the risk is mitigated by MPRL's forex hedging policies. Moreover, intense competition in the market from several domestic and international players limits its ability to fully pass on the price fluctuation.

The Stable outlook on the long-term rating reflects ICRA's belief that MPRL will benefit from the extensive experience of its management and established relationships with its customers in the solvent industry.

Key rating drivers and their description

Credit strengths

Established track record in solvent industry– Mr. Vinod Mehta and Mr. Paresh Mehta are MPRL's key promoters and have an experience of more than three decades in the sector. Over the years, the promoters have established relationships with various key intermediaries and end-customers to scale up the business. Their extensive experience will guide the company's future growth.

Diversified product portfolio and established association with customers across various segments – MPRL's revenues are primarily derived from the domestic market, driven by the paint, printing ink, pesticide and insecticide sectors. These sectors account for ~80% of the total operating income. The diversified product portfolio catering to several industries helps the company to adapt to changing market conditions. This mitigates the sector-specific risks to a certain extent. Further, MPRL has a well-diversified clientele with its top five customers accounting for around 30% of the total sales in FY2021 and FY2022. Moreover, the established relationship with customers ensures repeat orders.

Significant improvement in revenues in last two years and healthy coverage indicators – The company reported an OI of Rs. 469.1 crore in 7M FY2023, Rs. 907.4 crore in FY2022 and Rs. 508.5 crore FY2021 compared with Rs. 299.6 crore in FY2020, driven by an increase in realisation and volumes. The rise in volumes was supported by a larger market share through the addition of new customers and an expanded product basket comprising large new suppliers. Going forward, in the near to medium term, the OI is likely to be of a similar scale as FY2022. Further, the coverage indicators are healthy, indicated from an interest coverage of 8.2 times in 7M FY2023 and 7.3 times in FY2022. The total debt/OPBDITA was 1.3 times in 7M FY2023 and 2.3 times in FY2022. The coverage indicators are likely to continue to be comfortable, going forward, with the expected improvement in operating profitability due to change in revenue mix in favour of higher margin manufactured products and lower trading volumes.

Credit challenges

Moderate operating profitability – The company's operating profitability remains moderate, though it improved to 6.4% in 7M FY2023 (prov.) compared to 4.3% in FY2022 due to high raw material prices amid stiff competition. Raw materials constitute 90% of the total value of MPRL's finished products. Thus, its ability to procure the required raw materials at a competitive price is critical to maintain cost competitiveness, given that raw material prices vary with the movement of crude oil prices. Further, its reputed customer base and a highly fragmented industry structure limit the company's bargaining power and ability to pass on the price risks.

Vulnerability to forex risk from imports – The company is exposed to forex risks as it imports a sizeable portion of the key raw materials. It procured 40-45% of its raw material requirements from the international market in the last two years based on the price differential between the domestic and overseas markets. Escalating import cost due to the rupee's depreciation continues to keep its profitability metrics under check, although the risk is mitigated by MPRL's forex hedging practices.

Intense competition with limited entry barriers in terms of technology and manufacturing operations – The low technological complexity and moderate capital investment in setting up a manufacturing plant for solvent products has prompted several smaller players to set up operations. Moreover, because of the low product differentiation, price competitiveness remains key to maintaining and/or increasing its market share and building strong relationships with the end customers. Stiff competition with limited entry barriers restricts the margin.

Liquidity position: Adequate

MPRL's liquidity position is expected to remain adequate in the coming quarters, supported by better profits. The average utilisation of its working capital limits over the last 12 months ended October 2022 was around 70%. Further, with no major debt repayment obligations and limited capital expenditure requirements over the next 12 months, the overall liquidity position is likely to be adequate.

Rating sensitivities

Positive factors – ICRA may upgrade MPRL's ratings if there is a sustained improvement in the company's profitability while maintaining healthy revenues and an adequate liquidity position.

Negative factors – The ratings may be downgraded if there is a significant contraction in the scale of operations and/or moderation in margins, resulting in weak cash accruals and impacting the liquidity position. A specific credit metric that may lead to a downward pressure on the ratings includes TOL/TNW above 1.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Entities in the Chemical Industry](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of MPRL

Note (for analyst reference only):

About the company

MPRL, incorporated in 1993, manufactures and markets solvents, which find application in the production of printing inks, paints, pesticides and other products. The company is promoted and managed by Mr. Vinod Mehta, Mr. Paresh Mehta and their family. It has two manufacturing facilities - one each at Palghar, Maharashtra, and at Dahej, Gujarat. The company's total manufacturing capacity is ~70,000 KL per annum with an aggregate storage capacity of ~5,300 KL.

Key financial indicators (audited)

	FY2021	FY2022	7M FY2023*
Operating income	508.5	907.4	469.1
PAT	12.2	24.0	-
OPBDIT/OI	4.3%	4.3%	6.4%
PAT/OI	2.4%	2.6%	-
Total outside liabilities/Tangible net worth (times)	2.6	2.1	-
Total debt/OPBDIT (times)	1.4	2.3	1.3
Interest coverage (times)	6.1	7.3	8.2

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore ; All calculations are as per ICRA Research; Source: Company data, ICRA Research; * Provisional*

Status of non-cooperation with previous CRA: Not appliable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Dec 23, 2022	May 30, 2022	Apr 23, 2021	May 21, 2020	Sep 5, 2019
1	Non-fund based limits	Short term	148.75	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3
2	Interchangeable limits	Long-term and short term	(104.0)	-	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB-(Stable)/ [ICRA]A3	[ICRA]BBB-(Stable) / [ICRA]A3	[ICRA]BBB-(Negative) / [ICRA]A3	[ICRA]BBB-(Negative) / [ICRA]A3

Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Amount outstanding as on (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Dec 23, 2022	May 30, 2022	Apr 23, 2021	May 21, 2020	Sep 5, 2019
3 Unallocated	Long-term and short term	26.25	-	[ICRA]BBB(Stable)/ [ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable) / [ICRA]A3	[ICRA]BBB- (Negative) / [ICRA]A3	[ICRA]BBB- (Negative) / [ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-fund based limits	Very Simple
Interchangeable limits	Simple
Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non Fund-Based Facilities	NA	NA	NA	148.75	[ICRA]A3+
NA	Interchangeable Limits	NA	NA	NA	(104.00) #	[ICRA]BBB(Stable)/[ICRA]A3+
NA	Unallocated Limits	NA	NA	NA	26.25	[ICRA]BBB(Stable)/[ICRA]A3+

Source: Company; #Total utilisation of fund based interchangeable sublimits should not exceed Rs. 104 crore

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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