

November 28, 2023

Panama Petrochem Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Cash credit	6.00	6.00	[ICRA]A+ (Stable); reaffirmed
Non-fund based – Letter of credit	118.00	118.00	[ICRA]A1+; reaffirmed
Total	124.00	124.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in the established track record of Panama Petrochem Limited (PPL/ the company) in the white oil and allied oil business and its strong customer base with long-term relationships with reputed companies across multiple industries. The company's product profile is well-diversified across various end-user industries, such as cosmetics, ink, rubber, textiles, transformer and industrial lubricants, mitigating the risk of slowdown in a particular sector.

The ratings also favourably consider PPL's diverse manufacturing presence with four manufacturing units in India, strategically located to cater to different industrial clients for different kinds of oil. Further, the company has a manufacturing unit at Ras Al Khaimah, the UAE, under its wholly-owned subsidiary, Panol Industries RMC FZE, which enjoys proximity to the base oil suppliers in West Asia and caters to the demand for its products in the region. Around ~35-45% of PPL's sales are from exports.

The ratings also factor in PPL's comfortable financial risk profile, characterised by minimal debt levels, healthy cash generation from operations and no major capex plans going forward, which will result in a sustained improvement in the credit profile of the entity. The company reported a YoY revenue growth of 5% in FY2023 on a consolidated basis. In FY2023, the operating margin (OPM %) stood at 14.3% (13.9% in PY) and the net profit margin (NPM %) was at 10.4% (10.8% in PY). While the revenue growth was due to higher realisation, the margins improved on the back of a favourable sales mix and better cost control. While ICRA expects some moderation in PPL's profit margin, it is expected to remain healthy, going forward. The capital structure and coverage indicators are also healthy with negligible debt levels on a consolidated basis. While the company plans to add capacities over the next few years, the capex will be funded through internal accruals.

The ratings are, however, constrained by the vulnerability of PPL's profitability to the fluctuations in forex rates and base oil prices, which are inherently volatile as they are crude oil derivatives. The company's operations are also exposed to competition in the industry from other established and unorganised players. The company's net working capital intensity has remained moderately high, though it has moderated in the last three fiscals following the steps taken by the company to improve the receivable cycle.

The Stable outlook on the long-term rating reflects ICRA's opinion that PPL's credit profile will remain comfortable, supported by a healthy financial performance on the back of its established relationships with reputed customers, and application in diversified industries and planned capacity expansion.

Key rating drivers and their description

Credit strengths

Established track record in white oil business – The company is an established player in the liquid paraffin/white oil business with more than 35 years of experience. The company manufactures over 80 variants of oil across multiple industries.

Healthy financial risk profile – At a consolidated level, PPL reported a healthy revenue of Rs. 2,248.7 crore in FY2023, compared with Rs. 2,132.4 crore in FY2022, mainly on account of higher realisations. The operating margins improved to 14.3% in FY2023 from 13.9% in FY2022 on the back of an improving product mix with the inclusion of value-added products and the cost saving measures undertaken by the company. However, in H1 FY2024, the operating margins moderated to 10.9% because of muted realisations and volatile raw material prices. The capital structure and coverage indicators have also been healthy with a gearing of 0.0 times as on March 31, 2023 (PY 0.04 times) and 0.0 times as on September 30, 2023. The coverage indicators were also healthy, reflected in interest coverage of 27.8 times (42.1 times in FY2022) and total debt/operating profit of 0.0 times (0.1 times in FY2022) in FY2023. In H1 FY2024, the interest coverage was ~14.0 times, while the other coverage indicators remain healthy. The company's financial profile is expected to remain healthy on the back of steady demand from end-user industries and reduced reliance on debt.

Reputed clientele and geographical diversification of revenues – The company has a strong customer profile, including large international FMCG companies such as Dabur and Marico, and reputed players in the textile, ink and tyre sectors, and has long-term relationships with several key clients. The company's customer profile remains well-diversified across several industries, mitigating the risks of a demand slowdown in any sector. PPL's revenues are well-diversified in the domestic and overseas markets. Its exports account for ~35-45% of its total standalone sales distributed across Africa, East Asia, South America and Europe. The company also operates in West Asia through its subsidiary, Panol Industries RMC FZE. Further, PPL has a diversified presence in India and is also expanding its reach to eastern and southern India. A geographically diversified revenue base helps mitigate the risks of a slowdown in any market.

Manufacturing units strategically located to cater to different end-user industries – PPL has four manufacturing units in India at Ankleshwar and Dahej in Gujarat, Taloja in Maharashtra and in Daman (UT). The strategic location of its plants helps the company to cater to specific industrial clusters. For instance, the company's facility at Taloja, Maharashtra, is close to the port and is used for most of its exports. Further, it has a wholly-owned subsidiary having a manufacturing unit at Ras Al Khaimah, the UAE. This unit has the advantage of being close to the base oil suppliers in West Asia and PPL's customers in the region, specifically the GCC and MENA regions, along with a few customers in southern India by saving on logistics costs.

Credit challenges

Vulnerability of profits to forex fluctuation; sensitivity to base oil prices – The company remains exposed to the volatility in the prices of base oil, which is a crude oil derivative. However, it can pass on any significant increase in base oil prices to its customers with the provision to set monthly prices. In the case of exposure to forex fluctuations, the company's exports provide a natural hedge of up to 35-40%. For the remaining exposure, it has an active hedging policy to hedge a part of its exposure through forward covers.

High competition in industry - The company's operations are exposed to competition from other established players, a few of whom have higher scale of operations. ICRA notes that low entry barriers and limited product diversification have led to intense competition in the base oil processing industry. Companies mostly focus on volume, which leads to competitive pricing.

Moderately high working capital intensity - PPL's net working capital intensity has remained in the range of 20-25% during FY2021-FY2023. The moderately high working capital requirement is because of high inventories and receivables along with other current assets. However, the net working capital intensity is supported by LoC-backed creditors to an extent. There has been some moderation in the working capital intensity in recent years following the steps taken by the management to reduce its receivables.

Liquidity position: Strong

PPL's liquidity profile is expected to remain strong, supported by healthy cash flow from operations and low utilisation of its working capital limits. Further, it has no long-term debt repayment obligations and the consolidated cash and bank balance

was Rs. 221.8 crore (standalone cash and bank balance was Rs. 169.3 crore) as on March 31, 2023. The company has capacity expansion plans of ~Rs. 100.00 crore over a three-year period, which will be funded by internal accruals.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to increase its scale of operations, profitability and cash accruals on a sustained basis while maintaining a strong liquidity position and healthy credit metrics.

Negative factors – The ratings can be downgraded if the company’s scale of operations or profitability declines on a sustained basis. Any stretch in the working capital cycle that would weaken the liquidity position and moderate the debt coverage metrics on a consistent basis could also lead to a downgrade.

Environmental and Social Risks

PPL, being present in the petrochemical industry, is exposed to the risk of tightening regulations related to environment norms and industrial safety and potential penalties in case of any non-compliance. As per the disclosures in the annual report of FY2023, the company is in compliance with the current applicable environmental rules and regulations. The company’s exposure to social risks mainly pertain to safe operations and remaining compliant to all environmental regulations to ensure the safety of employees and the community in the vicinity of its manufacturing units. ICRA doesn’t expect any material impact of the ESG risk on the company’s credit profit in the near to medium term.

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 consolidated financial profile of Panama Petrochem Limited. As on September 30, 2023, PPL had a wholly-owned subsidiary, which is listed in Annexure II

About the company

Panama Petrochem Limited (PPL), incorporated in 1982, is a manufacturer and exporter of over 80 variants of petrochemicals. The company’s key products include liquid paraffin oil (white oil), petroleum jelly and transformer oil. The company has four manufacturing units in the country - Ankleshwar (Gujarat), Dahej (Gujarat), Taloja (Maharashtra) and Daman. PPL’s products are used across six to seven broad industry segments such as printing ink, cosmetics, pharmaceuticals, rubber, textile, transformer and industrial lubricants. The company also has manufacturing presence in West Asia through its wholly-owned subsidiary, Panol Industries RMC, FZE at Ras Al Khaimah, the UAE.

Key financial indicators (audited)

PPL	FY2022	FY2023
Operating income	2132.4	2248.7
PAT	230.3	233.0
OPBDIT/OI	13.9%	14.3%
PAT/OI	10.8%	10.4%
Total outside liabilities/Tangible net worth (times)	0.6	0.3
Total debt/OPBDIT (times)	0.1	0.0
Interest coverage (times)	42.1	27.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as on Nov 28, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	
				Nov 28, 2023	Dec 09, 2022	Feb 14, 2022	Oct 01, 2021	Dec 29, 2020	
1	Fund based – Cash credit	Long term	6.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	Non-fund based – Bank guarantee/ Letter of credit	Short term	118.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based – Cash credit	Simple
Short term - Non-fund based – Bank guarantee, letter of credit	Very Simple

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	Fund based – Cash credit	NA	NA	NA	6.00	[ICRA]A+(Stable)
NA	Non-fund based – Letter of credit	NA	NA	NA	118.00	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Panol Industries RMC, FZE	100.00%	Full Consolidation

Source: Company

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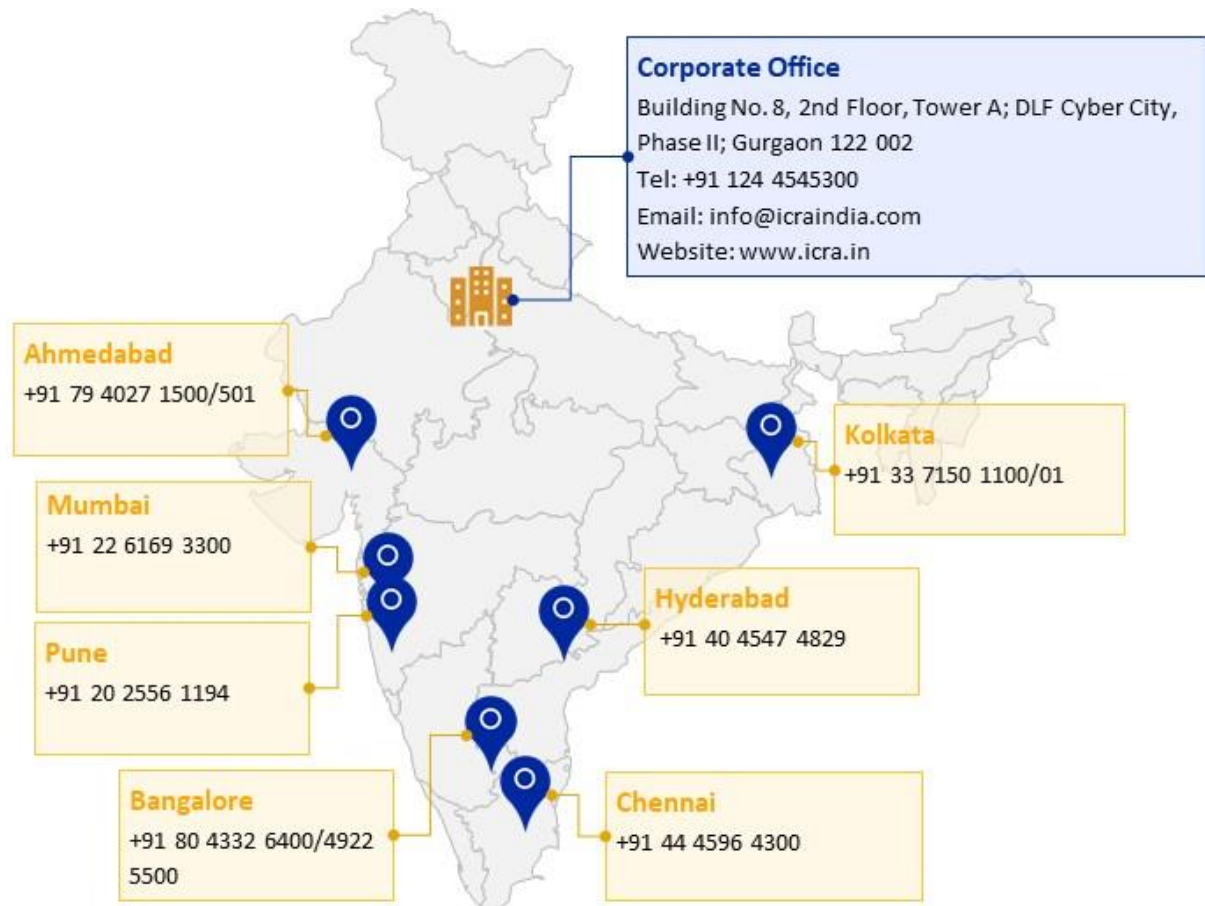
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