February 21, 2025

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, transformers and industrial lubricants, mitigating the risk of slowdown in a particular sector.

The ratings 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 35-40% of PPL's sales are from exports.

The ratings also factor in PPL's comfortable financial risk profile, characterised by the growing revenue (driven by volumetric growth) and the comfortable cash flow from operations which has kept the reliance on debt limited. The company's operating profitability has moderated in recent years, but is expected to remain stable at current levels which should keep the credit profile healthy. The return metrics have also moderated with the return on capital employed (RoCE) moderating to 24.8% in FY2024 from 35% in FY2023, but remaining healthy.

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 because of the sizeable raw material inventory being maintained by the company. As the base oil prices remain volatile, the company's operations may witness inventory losses in case of a sharp decline in raw material prices.

The Stable outlook on the long-term rating reflects ICRA's opinion that PPL's cash flow from operations will remain comfortable, supported by stable demand for the company's products and its long and established relationship with customers. The cash flow from operations will be adequate to meet the company's modest capex requirements, thereby limiting the reliance on debt and keeping the credit profile stable.

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. It serves diverse industries, thereby protecting itself against the downturns in a specific industry it serves.

Healthy financial risk profile – At a consolidated level, PPL reported a healthy revenue of Rs. 2,356.7 crore in FY2024, compared with Rs. 2,248.7 crore in FY2023, mainly on account of higher volumes. On the other hand, the operating margins moderated to 8.9% in 9M FY2025 from 10.8% in FY2024 and 14.3% in FY2023 due to a general reduction in the gross profit on the sale of products after the abnormal profits till FY2023. The capital structure and coverage indicators have also been healthy with a gearing of 0.02 times as on March 31, 2024 (PY 0.00 times) and 0.0 times as on September 30, 2024. The company's debt consists of only working capital debt (WCDL + CC) and does not have any long-term debt. The coverage indicators were also healthy, reflected in an interest coverage of 14.1 times (27.8 times in FY2023) and total debt/operating profit of 0.1 times (0.0 times in FY2023) in FY2024. In H1 FY2025, 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 a steady demand from the 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, thus helping save 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 rates. 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 a 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 20-30% during FY2022-FY2024. The moderately high working capital requirement is because of high inventories and receivables along with other current assets. However, the LoC-backed creditors support the net working capital intensity 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.

Environmental and social risks

PPL's products are crude oil derivatives. Hence, the products may come under scrutiny amid the growing calls for decarbonisation, though the company does not face any such risk at present. It is working towards developing new products using the non-hydrocarbon route although their commercialisation is expected to take some more time.

PPL's exposure to social risks mainly pertain to safe operations and remaining compliant to all environmental regulations to ensure the safety of its 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.

Liquidity position: Strong

PPL's liquidity profile is expected to remain strong, supported by a 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. 133.2 crore (standalone cash and bank balance was Rs. 63 crore) as on March 31, 2024. The cash flow from operations are expected to remain in the range of Rs. 100-120 crore for FY2025, which should be more than adequate to meet the near-term capex requirements and will also provide cushion towards any large working capital requirements on a consolidated basis.

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.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemicals
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 Consolidated	FY2023	FY2024
Operating income	2248.7	2356.7
PAT	233.0	195.2
OPBDIT/OI	14.3%	10.8%
PAT/OI	10.4%	8.3%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	0.0	0.1
Interest coverage (times)	27.8	14.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Feb 21, 2025	Date	Rating	Date	Rating	Date	Rating
Long term - Cash credit - Fund based	Long term	6.00	[ICRA]A+ (Stable)	28-NOV-2023	[ICRA]A+ (Stable)	09-DEC-2022	[ICRA]A+ (Stable)	01-OCT-2021	[ICRA]A (Stable)
				-	-	-	-	14-FEB-2022	[ICRA]A (Stable)
Short term - Others- Non-fund based	Short term	118.00	[ICRA]A1+	28-NOV-2023	[ICRA]A1+	09-DEC-2022	[ICRA]A1+	01-OCT-2021	[ICRA]A1
				-	-	-	-	14-FEB-2022	[ICRA]A1

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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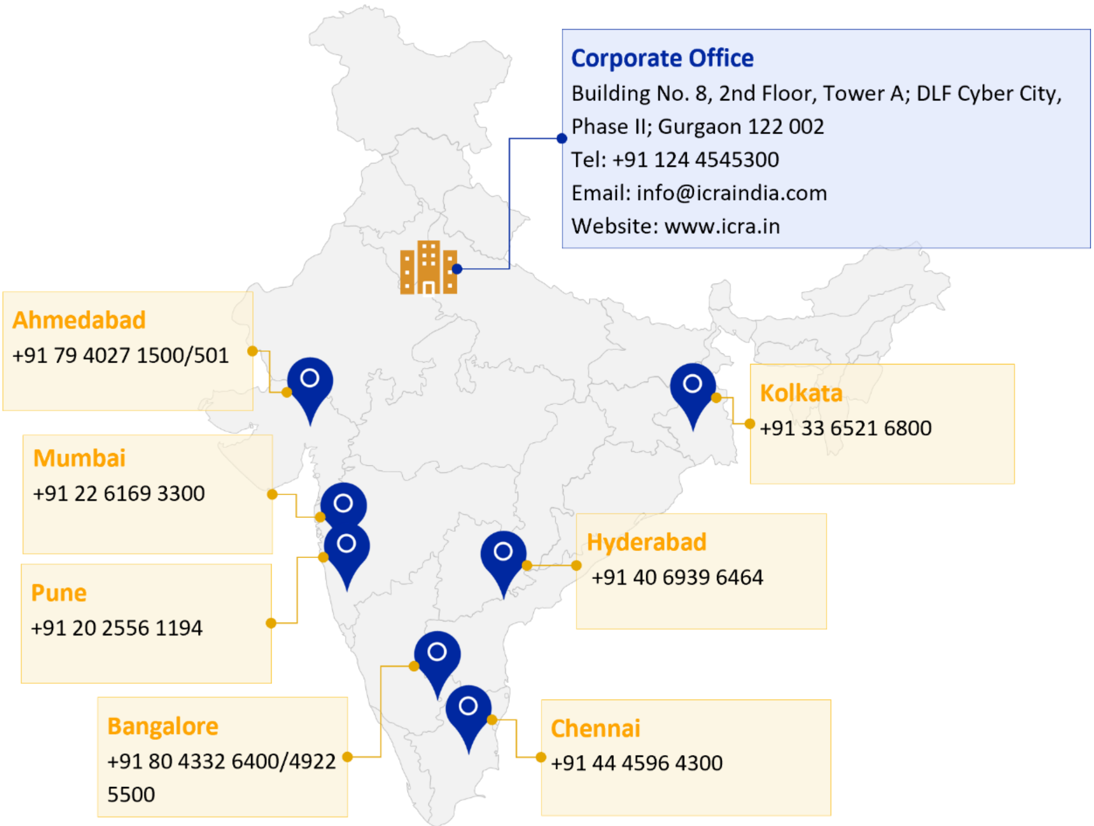

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