Manali Petrochemicals Ltd — May 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat (Full Year) / Miss (Q4 Margins) **One-line:** FY22 was a "special" year with record realizations driven by global supply disruptions; the thesis now shifts to how effectively the company deploys its □612 Cr cash pile as margins normalize.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat (Annual)	FY22 Revenue □1,690 Cr; EPS growth of 90%.	□
Earnings Quality	Moderate	High FCF conversion (131% of PAT), but driven by "special" transient pricing power.	□
Guidance Confidence	Neutral	Management admits FY22 was extraordinary and realizations are softening.	□
Management Credibility	Strong	Extremely candid about the "one-off" nature of recent super-profits and margin erosion.	□
Business Quality Signal	Improving	Shift from 90:10 to 80:20 Commodity-Specialty mix; net cash cycle improved to 34 days.	□
Key Q&A Exchange	Q#4 Sustainability	Mgmt confirms FY22 was a "surprise" year; focus is now on brownfield expansion.	□
The Street's Primary Anxiety	Margin Normalization	Analysts focused on the Q4 EBITDA drop (□110 Cr vs □165 Cr in Q3) as imports resume.	□
Capital Cycle Stage	Investment	Commencing □225 Cr brownfield PG expansion; exploring Greenfield/M&A.	□
Margin / Return Ratio Trajectory	Deteriorating	Q4 EBITDA margin compressed to 26% from 33% in Q3 due to RM costs/import pressure.	□
Pricing Power	Eroding	Management explicitly noted "corrections in realization" for PG and Polyol.	□
FCF Conversion & Quality	Strong	□346 Cr FCF generated on □381 Cr PBT; effectively zero debt (0.02 D/E).	□
Competitive Moat Signals	Stable	Only domestic producer of PG/Polyols; protected by "just-in-time" supply vs imports.	→
Balance Sheet Strength	Strong	Cash and equivalents reached □612 Cr (60% of Net Worth).	□
Working Capital Efficiency	Improving	Cash cycle reduced from 52 to 34 days; DIO at 29, DSO at 36.	□
Mgmt Guidance Track Record	First entry	This is the inaugural investor call.	□
Key Vulnerability / Red Flag	Import Competition	Resumption of global supply chains is already softening domestic realization.	□
Management Tone	Cautious	Realism regarding the end of the super-cycle; focused on operational discipline.	□

Key Takeaways (Positives & Negatives):

Positives: * **Balance Sheet Fortress:** The company ended FY22 with ₹612 Cr in cash and effectively zero debt, providing a massive buffer for upcoming expansions. * **Operational Efficiency:** ROCE of 48% and ROE of 37% are world-class, even if they normalize lower. The reduction in the cash cycle to 34 days indicates tight working capital management. * **Import Substitution Advantage:** As the sole domestic producer of Propylene Glycol (PG), Manali retains a logistical and technical support advantage over importers.

Negatives: * **Peak Earnings Risk:** Management has signaled that the extraordinary realizations of FY21-22 are "special" and unlikely to persist as global supply chains ease and imports return to pre-pandemic levels. * **Margin Compression:** Q4 EBITDA (₹110 Cr) saw a sharp 33% drop from Q3 (₹165 Cr) due to rising raw material (crude-linked) prices and softening finished product prices. * **Capacity Constraints:** Polyol utilization is stuck at 60-70% due to frequent grade changeovers, limiting volume growth until the new PG capacity (Phase 1: 18-20 months away) comes online. * **Forward Watchpoint:** Watch the pace of environmental approvals for the PG expansion; any delay beyond 3 months will push the 18-month execution timeline further out, leaving the company vulnerable to imports.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

PPT not available — numbers from concall.

Metric	Current Qtr (Q4FY22)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (₹Cr)	₹421	↑ 12.0%	↓ 14.8%	↓	Growth driven by pricing; Q4 saw volume/ price pressure vs Q3.
Volume (Annual MT)	68,000	↑ 13.3%	First entry	↑	Total annual volume up from 60,000 MT in FY21.
Utilization - Polyol	60% - 70%	↑ (vs 30-40%)	→	→	Limited by frequent "train" changeovers for different applications.
Gross Margin (%)	49% (FY Avg)	First entry	↓ (implied)	↓	PG led at 54%; Q4 impacted by crude-led RM price spikes.
EBITDA (₹Cr)	₹110	↓ 32.9%	↓ 33.5%	↓	Sharp compression as RM prices rose while realizations softened.
EBITDA Margin %	26.1%	↓ 17.5 bps	↓ 7.4 bps	↓	Normalizing from "extraordinary" levels seen in Q2/Q3.
PBT (₹Cr)	₹123.47	↑ 26.0%	↓ 16.4%	↓	Q4 benefitted from other income/interest on cash pile.
ROCE (%)	48%	↑ 700 bps	First entry	↑	Peak cycle returns; FY21 was 41%.
Cash Flow (FCF)	₹346 Cr (FY)	↑ 78.4%	First entry	↑	Strong cash generation; FY21 was ₹194 Cr.
Net Debt / (Cash)	(₹612 Cr)	↑ 117.8%	First entry	↑	Cash pile grew from ₹281 Cr to ₹612 Cr YoY.
Net Cash Cycle (Days)	34	↓ 18 days	First entry	↑	Significant improvement from 52 days in FY21.
Inventory Days (DIO)	29	↓ (Improved)	First entry	↑	Down from 52 days last year.

2B. SEGMENT BREAKDOWN

Segment	Revenue Mix (%)	Margin (Gross)	Trend	vs Company Avg	Key Development
Commodity	~80%	~54% (PG)	↓	Above Avg	Propylene Glycol (PG) is the main profit driver; facing import pressure.
Specialty	~20%	~40% (SS)	→	Below Avg	Focus on footwear, car seating, and UK-based cast elastomers.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Feasibility	Historical Delivery	Risk Flag
Guidance	Volume / Capacity	Expand PG capacity by 20,000 MT (Phase 1).	Needs env. approval in 2-3 months; 18m execution.	First entry	High: Env approvals can be slow.
Guidance	Margins	Sustainable performance focus.	Shift to 30% Specialty mix needed.	N/A	High: Commodity prices are cooling.
Strategy	Capital Allocation	□612 Cr cash for expansions/Greenfield.	Needs raw material security first.	Retained cash; no buyback.	Medium: High cash drag on ROE if not deployed.
Strategy	Tech (Econic)	Pilot plant for CO2-based Polyols.	$200k-$300k cost; 1-year timeline.	MOU signed.	Low: Early stage R&D.
Macro	Input Costs	Crude-linked RM prices rising.	Pass-through difficult as imports rise.	Managed well in FY22.	High: Geopolitical uncertainty.
Macro	Competition	Imports returning to pre-COVID levels.	Local "Just-in-Time" edge is key defense.	Captured market in FY22.	High: Pricing power is fading.

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	3.0	Pawan Nahar	IR Strategy	Governance	Will this investor engagement continue and what is the group's philosophy?	Management confirmed they endeavor to make these calls frequent and noted the suggestion for group-level calls. This indicates a positive shift toward minority shareholder transparency for the SPIC/ Group companies.	Group-wide IR policy was deflected as "separate event."	4.0	Direction commitm
2	4.5	Deven Mehta	Capital Allocation	Capex and Allocation	Where is the 600 Cr cash going; any buybacks or new segments like Polypropylene?	Management is focusing on Brownfield PG expansion first and waiting for raw material security before committing to Greenfield commodities. Retaining cash for expansion means buybacks are unlikely in the near term, keeping the focus on growth over yield.	Polypropylene/ IPA entry specifics were ignored.	3.0	Growth-focused hedge
3	4.0	Anshul Mittal	Supply Chain	Business Overview	What is the domestic market size and raw material import dependency?	Domestic PG and Polyol capacity is ~100k tons each; Manali is the sole producer	Specific price points for PG vs last year were not quantified.	4.0	Clear and quantifie

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						while imports fill the gap. High import dependency for Lime (Malaysia/ Vietnam) exists but supply is stable with 15-20 days inventory, confirming a defensible but not fully integrated moat.			
4	5.0	Pranay Jhaveri	Sustainability	Management Commentary	Is the massive jump in EBITDA (11% to 30%+) structural or a one-off?	Management admitted a significant portion was "smart buying" of RM and COVID-led supply chain restrictions on imports. This signals a likely "reversion to mean" for margins, suggesting FY22 was the cyclical peak.	The exact "structural" margin floor was not defined.	4.5	Candid peak sign
5	4.0	Pranay Jhaveri	Capacity	Business Overview	What is the utilization and how has the product mix evolved?	Polyol utilization improved to 60-70% (from 30-40%) while the specialty mix moved from 10% to 20%. Incremental growth is now constrained by "train" changeovers,	None	4.0	Specific utilization data

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						necessitating the planned expansions to drive volume.			
6	3.5	Gunmeen Kohli	Growth Attribution	Financials	Breakup of revenue growth between volume and price?	Volume grew ~8% (60k to 68k tons), while the majority of revenue growth came from price increases. This confirms that the recent performance was realization-driven (cyclical) rather than volume-driven (structural).	None	5.0	Precise data give
7	4.5	Jayant Mamania	Margin Pressure	Financials	How much will margins erode as pre-COVID import levels return?	Management stated they cannot quantify the erosion but noted that high crude prices and import growth make the current environment "uncertain." This warns of a margin squeeze in FY23 as the pricing tailwind flips to a headwind.	Specific margin guidance range.	2.0	Defensive but hones
8	4.0	Jayant Mamania	Project Timeline	Capex and Allocation	What is the status of the PG expansion	Approvals are in final stages (expected in	None	4.0	Specific timeline

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					announced in 2020?	2-3 months), with an 18-month construction timeline thereafter. Execution is roughly 2 years away from impacting the bottom line, creating a growth gap in the interim.			
9	3.5	Jignesh Shah	Q4 Performance	Financials	Why was Q4 EBITDA lower despite higher revenue than Q4 last year?	Rising raw material (crude) prices and a correction in PG/Polyol realizations were the primary drivers. This highlights the double-whammy of rising costs and falling prices hitting the business currently.	None	4.0	Logical explanati
10	3.0	Pranjul Agarwal	Demand	Business Overview	Why is Polyol utilization only 60% if it's 50% of revenue?	Low utilization is due to the operational complexity of frequent product grade changes rather than a lack of demand. This implies "hidden" capacity exists if they can optimize production runs or add	None	3.0	Operation nuance

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						dedicated lines.			

PATTERN FLAGS & SENTIMENT

The recurring theme across analyst questions was the **sustainability of super-normal margins**. Analysts were visibly anxious about the Q4 margin compression, repeatedly probing for a "floor." Management responded with notable transparency, refusing to provide "fake" stability and instead categorizing FY22 as a "special" year. They shifted the narrative toward their ₹612 Cr cash balance and brownfield expansions as the new long-term value drivers.

Analyst Sentiment Verdict: Skeptical but appreciative of the transparency. Analysts recognized that Manali captured a unique cyclical window but are now pricing in a normalization. The friction point remains the 18-24 month wait for new capacity to come online while imports are already eroding the current pricing power. Management's credibility is high because they didn't try to hide the cyclicality.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Expansion Timing	Announced in 2020	Execution hasn't started; waiting for approvals.	2-year lag since announcement with no ground broken.	Opportunity cost; allows importers to regain market share.
Pricing Power	Strong annual results	Realizations already "softened" in Q4.	The "pricing power" was supply-chain luck, not a permanent moat.	Margin risk in FY23 is higher than the Street likely modeled.

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5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.

What Changed	Prior Quarter	This Quarter	Direction
Cash Position	₹281 Cr (FY21)	₹612 Cr	↑
Margin Profile	33% (Q3FY22)	26% (Q4FY22)	↓
Return Ratios	41% ROCE (FY21)	48% ROCE (FY22)	↑
Net Cash Cycle	52 Days (FY21)	34 Days (FY22)	↑
Product Mix	90:10 (Hist.)	80:20 (Current)	↑

CFO-to-PAT Analysis: * **PBT:** ₹381 Cr * **Est. PAT:** ~₹285 Cr * **Free Cash Flow (FCF):** ₹346 Cr * **Capex:** ₹27 Cr * **Operating Cash Flow (OCF):** ₹373 Cr * **Ratio (CFO/PAT):** 1.31x (131%) * **Working Capital Lever:** The divergence is driven by a massive reduction in the Net Cash Cycle (from 52 to 34 days). Inventory days dropped significantly (DIO 29), releasing cash from the balance sheet even as profits grew. This indicates exceptionally high earnings quality and efficient inventory management during the peak cycle.

STOP HERE.