January 07, 2021

Apcotex Industries Limited: Long-term rating downgraded to [ICRA]A+; Short-term rating reaffirmed; Outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limits	53.0	53.0	[ICRA]A+; downgraded from [ICRA]AA-; Outlook revised to Stable from Negative
Short-term Non-fund Based Limits	28.0	28.0	[ICRA]A1+; reaffirmed
Long-term / Short-term – Fund-based/ Non-fund Based Limits	30.0	30.0	[ICRA]A+/[ICRA]A1+; downgraded from [ICRA]AA-/[ICRA]A1+; Outlook on long-term rating revised to Stable from Negative
Term Loan	35.0	35.0	[ICRA]A+; downgraded from [ICRA]AA-; Outlook revised to Stable from Negative
Total	**146.0**	**146.0**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the long-term rating of Apcotex Industries Limited (AIL or the company) is on account of the significant decline in scale, profitability and cash accruals, and weakening of return indicators in FY2020 and YTD FY2021. In FY2020, the company's performance was impacted by the weak performance of the Nitrile Butadiene Rubber (NBR) segment, owing to the slowdown in the auto industry, slump in exports due to lower raw material prices in Europe and increased competition from imports, following dumping from South Korean and Japanese players, which had adversely impacted volumes and realisations during Q2 and Q3 FY2020. Following the imposition of anti-dumping duty on South Korean and Japanese NBR manufacturers by China, the imports from the former have increased in the domestic market. Additionally, the price differential between Europe and Asia of a key raw material, butadiene, increased substantially in Q2 and Q3 FY2020. As a result of which, AIL's domestic sales and exports slumped as European production became significantly cheaper. Even though the price differential of butadiene between Europe and Asia has corrected, the weak performance continued in H1 FY2021 owing to suspension of operations from March 22, 2020 for about a month and the slump in demand due to Covid-19 related lockdowns. Accordingly, the revenues, profitability and return indicators are expected to be adversely impacted in FY2021 as well. The company posted an operating income of Rs 189.1 crore and a net profit of Rs. 5.0 crore in H1 FY2021, against an operating income of Rs. 270.8 crore and a net profit of Rs 15.0 crore in H1 FY2020. Additionally, the ADD on imports of NBR expired on December 4, 2020 and delays in imposition of the same, as per the recommendation of the Ministry of Commerce and Industry, are likely to keep pressure on AIL's revenues and profitability in the current fiscal. The imposition and the quantum of anti-dumping duties is crucial for sustaining the profitability of the company and would remain a key monitorable.

ICRA also notes that the company is in the midst of a capex of Rs. 100 crore for setting up a plant of 45,000-MTPA capacity for manufacturing XNB Latex, which is used for making gloves. The funding plans are not yet finalised, though the payback period for the project is 2.5 years as per the management. Additionally, the company has plans to set up an additional NBR capacity of 20,000 MTPA at a capex of Rs. 180-200 crore, which is contingent on the ADD being in place to enable adequate returns from the project. Accordingly, ICRA has not factored the same and will review the ratings in case the company plans to go ahead with the project. The ratings are, further, constrained by the project execution risk owing to AIL's capital expenditure (capex) plan towards addition of XNB Latex manufacturing capacity. Given its capex plans, the debt levels may increase from the current levels, which could lead to some moderation in credit metrics. The ratings factor in the vulnerability of its profitability to high volatility in raw material prices (primarily styrene, butadiene and acrylonitrile) and adverse foreign exchange movements due to significant raw material imports. However, the exchange risk is partly mitigated by a natural hedge from its exports. The company has limited bargaining power with raw material suppliers and raw material costs are passed on to its customers, but with a lag. This was evident in the past, when the company witnessed a decline in its profitability because of a sharp increase in raw material costs that could not be passed on completely. ICRA also notes the competition faced by the company from existing domestic players in the synthetic latex segment and from imports across all its segments, which restricts AIL's pricing flexibility.

The ratings, however, draw comfort from the respectable market position of Apcotex Industries Limited (AIL) in the synthetic rubber and synthetic latex segments in India and its strong promoter background with a vast experience of more than three decades in the industry. The ratings factor in the company's reputed clientele and healthy market share in most of its end-user industries. The ratings favourably reflect AIL's healthy financial profile, marked by low gearing, comfortable coverage indicators and access to adequate liquidity through liquid investments and unutilised credit lines.

The Stable outlook on the long-term rating reflects ICRA's opinion that AIL will continue to benefit from its established position in the synthetic latex and synthetic rubber industry and healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Strong promoter background and respectable market position in synthetic rubber and synthetic latex segments in India – The company was established in 1980 as a division of Asian Paints (India) Limited. In 1991, the division was spun off as a separate company, which was headed by Mr. Atul Choksey, the former managing director of Asian Paints Limited. Mr. Atul Choksey has more than four decades' experience in the paints and chemicals industry. The current managing director of the company, Mr. Abhiraj Choksey, and other management team members who are experts in the field of chemicals, bring valuable experience to the company. At present, the company enjoys a respectable position in the Indian synthetic rubber and synthetic latex market.

Reputed clientele in domestic market with presence in various end-user industries – AIL's products find application in various industries such as paper and paperboards, textiles, carpet, construction, tyre cord, footwear, automobile, and rice roll. The company has a reputed customer profile with which it has developed strong relationships over the years. The same assists in procuring repeat orders.

Healthy financial profile marked by sound debt protection metrics; strong liquidity profile supported by adequate cash and equivalents with unutilised credit lines – The liquidity profile remains strong, with unencumbered cash and bank balance and liquid investments of Rs. 66.1 crore and Rs. 96.0 crore as on March 31, 2020 and September 30, 2020, respectively, as well as mostly unutilised credit lines. The debt coverage indicators remained healthy, as indicated by Total Debt/OPBDIT of 1.4 times and interest coverage of 14.3 times in FY2020, and Total Debt/OPBDIT of 1.1 times and interest coverage of 6.3 times in H1 FY2021.

Credit challenges

Significant capex plans towards capacity expansion could moderate debt coverage indicators – Over the last four years (FY2017 to FY2020), the company has incurred Rs. 95.0-crore capex at its manufacturing facilities for improving efficiency and increasing its manufacturing capacity of nitrile rubber to around 20,000 MTPA from 16,000 MTPA through debottlenecking.

Additionally, the company plans to incur ~Rs. 100.0-crore capex over the next two years towards adding capacity for manufacturing XNB latex. The project is expected to be commissioned by December 2021. The funding plans for the aforementioned project are not yet finalised, though the payback period for the project is 2.5 years as per the management. Given the capex plans, the debt levels may increase from current levels, which could lead to some moderation in credit metrics.

Vulnerability of profitability to volatility in raw material prices and foreign exchange fluctuations – Raw material consumption accounts for ~70% of sales, exposing AIL's profitability to price fluctuation risks with its key raw materials, styrene, butadiene and acrylonitrile witnessing high price volatility in the past. Further, the company is exposed to foreign exchange fluctuation risk owing to significant exports and imports, though the same is mitigated by a natural hedge and appropriate forward cover contracts.

Intense competition from domestic players and imports – The company faces competition from existing domestic players in the synthetic latex segment as well as from imports across all its segments. Approximately 16-17% of AIL's sales are driven by the automobile industry and ~8-12% of its sales by the construction industry. Given the current slowdown in the automobile and the construction industries, pressure on sales volumes and profit margins is expected in the near term. Moreover, any change in the regulatory environment/duty structure/ADD can also adversely impact business dynamics.

Liquidity position: Strong

The liquidity profile of the company is expected to remain strong with cash accruals significantly higher than debt repayments. Further, the company had unencumbered cash and bank balance, and liquid investments of Rs. 66.1 crore and Rs. 96.0 crore as on March 31, 2020 and September 30, 2020, respectively. The average fund-based working capital bank limits utilisation remained at ~23% of the total sanctioned limits during the 15-month period ending September 2020. Hence, AIL enjoys additional liquidity cushion in the form of Rs. 50.0 crore of unutilised working capital credit lines.

Rating sensitivities

Positive triggers – ICRA could upgrade AIL's rating if the company demonstrates healthy revenue growth, with ROCE over 20% on a sustained basis.

Negative triggers – Negative pressure on AIL's rating could arise in case of pressure on the company's revenues and profitability owing to non-renewal or imposition of inadequate anti-dumping duties on imports of NBR.

Further, any weakening in the company's free cash and liquid investments weakening the liquidity profile may also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Chemical Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone business and financial profile of the company.

About the company

Incorporated in 1986, AIL manufactures synthetic latex (XSB latex, VP latex, styrene acrylics and nitrile latex) and synthetic rubber (nitrile rubber, high styrene rubber, nitrile polyblends and nitrile powder). Synthetic rubber finds application in footwear, automobile and rice roll industries, while synthetic latex finds application in paper and paperboards, textiles, carpet, construction and tyre cord industries. The company has two manufacturing facilities—at Taloja in Maharashtra and Valia in Gujarat. The Taloja facility has a manufacturing capacity of 55,000 MTPA of synthetic latex and 7,000 MTPA of high styrene rubber, while the Valia facility has a manufacturing capacity of 20,000 MTPA of nitrile rubber and its allied products.

For the six-month period that ended on September 30, 2020, AIL reported a net profit of Rs. 5.0 crore on an operating income (OI) of Rs. 189.1 crore, against a profit after tax (PAT) of Rs. 15.0 crore on an OI of Rs. 270.8 crore for the six-month period that ended on September 30, 2019.

Key financial indicators

	FY2019 Audited	FY2020 Audited	H1 FY2021 Unaudited
Operating Income (Rs. crore)	625.7	496.0	189.1
PAT (Rs. crore)	46.6	16.6	5.0
OPBDIT/OI (%)	11.1%	7.0%	7.5%
RoCE (%)	25.7%	10.1%	6.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.6	0.5
Total Debt/OPBDIT (times)	0.1	1.4	1.1
Interest Coverage (times)	19.9	14.3	6.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument		Current Rating (FY2021)				Chronology of Rating History for the Past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) (30-Sep-2020)	Date & Rating	Date & Rating	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018	
					07-January- 2021	07-September-2020	17-March-2020	27-September-2019	-	30-March-2018	18-April-2017
1	Fund-based Limits	Long-term	53.0	-	[ICRA]A+(Stable)	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Non-fund Based Limits	Short-term	28.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
3	Fund-based/ Non-fund Based limits	Long-term/ Short-term	30.0	-	[ICRA]A+(Stable)/ [ICRA]A1+	[ICRA]AA-(Negative)/ [ICRA]A1+	[ICRA]AA-(Negative)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	-	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+
4	Term Loan-1	Long Term	35.0	22.2	[ICRA]A+(Stable)	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long-term Fund-based Limits	-	-	-	53.0	[ICRA]A+(Stable)
-	Short-term Non-fund Based Limits	-	-	-	28.0	[ICRA]A1+
-	Long-term / Short-term – Fund-based/ Non-fund Based Limits	-	-	-	30.0	[ICRA]A+(Stable)/ [ICRA]A1+
-	Term Loan	Jan-2019	-	FY2024	35.0	[ICRA]A+(Stable)

Source: Apcotex Industries Limited

Annexure-2: 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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