September 09, 2021

Apcotex Industries Limited: Ratings reaffirmed; Outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limits	53.0	43.00	[ICRA]A+ reaffirmed; Outlook revised to Positive from Stable
Short-term Non-fund Based Limits	28.0	38.0	[ICRA]A1+; reaffirmed
Long-term / Short-term – Fund-based/ Non-fund Based Limits	30.0	30.0	[ICRA]A+/[ICRA]A1+ reaffirmed; Outlook revised to Positive from Stable
Term Loan	35.0	35.0	[ICRA]A+ reaffirmed; Outlook revised to Positive from Stable
Long-term Interchangeable Limits^	-	(27.0)	[ICRA]A+ reaffirmed; Outlook revised to Positive from Stable
Short-term Interchangeable**	-	(15.0)	[ICRA]A1+; reaffirmed
Total	**146.0**	**146.0**	

**Instrument details are provided in Annexure-1*

*^Interchangeable with Long-term fund based limits; **Interchangeable with long-term/short-term fund-based/non-fund based limits*

Rationale

The revision in outlook on the long-term rating of Apcotex Industries Limited (AIL) factors in ICRA's expectation of AIL's strong financial performance led by consistent revenue growth and sustenance of margin profile. While the company witnessed significant volatility in profit margin in its quarterly performance in the past, it has been able to sustain the OPM in the range of 14-16% during the past four quarters, despite the discontinuation on anti-dumping duty (ADD) from December 2020 and covid-related challenges. The company is planning a sizeable capex, which is likely to drive the revenue growth, apart from diversifying the product mix and reducing dependence on nitrile butadiene rubber (NBR).

The ratings continue to draw comfort from healthy capital structure and debt protection metrics due to strong tangible net worth and limited reliance on debt. The company's liquidity profile has remained strong as reflected from cash and cash equivalent of ~Rs. 92 crore as on March 31, 2021. The rating draws comfort from AIL's strong market position in the synthetic rubber and synthetic latex segments in India and its promoter background with a vast experience of more than three decades in the industry. The ratings factor in the company's diversified customer base across various end-user industries.

The ratings, however, are constrained by the significant debt-funded capex plans towards capacity expansion, which is likely to moderate the company's debt coverage indicators and liquidity profile to some extent. ICRA notes that the company has been regularly incurring capex during the past few years on debottlenecking and improving efficiency. It also plans to incur a capex of ~Rs. 200 crore to enhance its capacity for carboxylated styrene butadiene (XNB) latex and allied products, and diversify its product portfolio. Successful commissioning of the capex and the company's ability to increase the share of new products in its total revenue pie will remain critical. Furthermore, 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 (forex) 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 when the company had 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.

Key rating drivers and their description

Credit strengths

Strong promoter background and strong market hold 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, headed by Mr. Atul Choksey, the former managing director of Asian Paints Limited. Mr. 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 personnel who are experts in the field of chemicals, bring valuable experience to the company. The company enjoys a strong market presence in the Indian synthetic rubber and synthetic latex market.

Diversified clientele across various end-user industries – AIL's clientele has remained diversified with its top 10 customers contributing ~35% of the revenues during the past two years. The products find application in various industries such as paper and paperboards, gloves, textiles, carpet, construction, tyre cord, footwear, automobile, and rice roll. In addition, the company has developed strong relationships with reputed players across these industries. While the company derived ~30% of its revenues from NBR sales to auto component and rice rolls industries, followed by paper and paperboards (~20%), the share of other sectors (construction, gloves, footwear) stood below 10% in FY2021.

Healthy financial profile marked by healthy profit margin during past few quarters, comfortable capital structure and debt protection metrics, and strong liquidity profile – After a significant hit on operating profit margin in FY2020 and further in Q1 FY2021 due to the pandemic, the company reported healthy OPM in the range of 14-16% in the following four quarters. Despite discontinuation of ADD on NBR from December 2020, the OPM stood at 16% in Q4 FY2021 and Q1 FY2022 on account of lower raw material prices, better product mix, pent-up demand across industries and cost saving measures by the company. Furthermore, the company's capital structure and debt protection metrics have remained healthy owing to strong tangible net worth and minimal reliance on external borrowings. The interest coverage stood at 14.28 times and total debt /operating profit at 0.21 time in FY2021. In addition, ICRA notes the company's strong liquidity profile, with unencumbered cash and bank balance, and liquid investments of ~Rs. 92 crore as on March 31, 2021, as well as mostly unutilised credit lines. While ICRA expects some moderation in coverage indicators and liquidity following significant capex, these are likely to remain healthy.

Credit challenges

Significant debt-funded capex plans towards capacity expansion, which is likely to moderate debt coverage indicators and liquidity profile – Over the last three years, the company has incurred ~Rs. 100.0 crore capex at its manufacturing facilities for improving efficiency and increasing its manufacturing capacity through debottlenecking and for captive power plant. Additionally, the company plans to incur ~Rs. 200.0 crore capex towards adding capacities for manufacturing XNB latex and other allied products. The company has received the required environment clearances and project is expected to commission in H1 FY2023. As the management intends to fund the capex through a term loan of ~Rs. 100-110 crore and the remaining from internal accruals and existing cash and cash equivalents, some moderation in credit metrics and liquidity profile is expected in the next few quarters.

Vulnerability of profitability to volatility in raw material prices and forex 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 forex 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 domestic players in the synthetic latex segment as well as from imports across all its segments. The company's top line and profitability were adversely impacted in FY2020 by aggressive dumping of NBR by overseas suppliers. While ICRA notes that the company is the only manufacturer for certain products in the country, including NBR, its ability to compete with other domestic and overseas manufacturers will remain critical.

Liquidity position: Strong

The liquidity profile of the company is expected to remain strong due to expected healthy cash accruals and comfortable cash balance of Rs. 10.6 crore and liquid investments (mutual funds and equity investments) of Rs. 82.4 crore as on March 31, 2021. The company has repayment obligation of Rs. 3.30 crore in FY2022 and planned capex in the range of Rs. 200–220 crore in FY2022 and FY2023, which will be partly funded through debt of ~Rs. 100-110 crore and the remaining through internal accruals and liquid assets. However, the management will continue to maintain the cash balance and liquid investments of ~Rs. 50.00 crore to meet any uncertainties. Furthermore, the company has ~Rs. 40-45 crore of cushion in the form of undrawn working capital limits.

Rating sensitivities

Positive factors – ICRA could upgrade AIL's rating on 1) healthy revenue growth along with sustenance of profit margins; or 2) successful commissioning and stabilization of operations post the capex, or 3) ROCE of more than 20% on a sustained basis

Negative factors – The outlook can be revised to Stable if there is a moderation in profit margins. Further, Debt/OPBDITA remaining above 2x on a sustained basis can trigger a rating revision

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Chemical Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

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 gloves, paper and paperboards, textiles, carpets, construction and tyre cord industries. The company has two manufacturing facilities—one each at Taloja in Maharashtra and Valia in Gujarat. The Taloja facility has a manufacturing capacity of 59,200 MTPA of synthetic latex and 7,000 MTPA of high styrene rubber, while the Valia facility has a manufacturing capacity of 21,000 MTPA of nitrile rubber and its allied products. The company is a responsible care certified manufacturer.

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	495.98	540.64
PAT (Rs. crore)	16.63	44.16
OPBDIT/OI (%)	6.96%	12.90%
PAT/OI (%)	3.35%	8.17%
Total Outside Liabilities/Tangible Net Worth (times)	0.58	0.48
Total Debt/OPBDIT (times)	1.43	0.21
Interest Coverage (times)	14.29	14.28

PAT: Profit after Tax before adjustment for associate and joint ventures; 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

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2018	
					9-Sep-21	7-Jan-21	7-Sep-20	17-Mar-20	27-Sep-19	30-Mar-18	18-Apr-17
1	Fund-based Limits	Long-term	43.0	-	[ICRA]A+ (Positive)	[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	38.0	-	[ICRA]A1+	[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+ (Positive)/ [ICRA]A1+	[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	Long-term	35.0	9.52	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	-	-
5	Interchangeable	Long-term	(27.0)^	-	[ICRA]A+ (Positive)	-	-	-	-	-	-
6	Interchangeable	Short-term	(15.0)**	-	[ICRA]A1+	-	-	-	-	-	-

*^Interchangeable with long-term fund-based limits; **Interchangeable with long-term/short-term fund-based/non-fund based limits*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based Limits	Simple
Short-term Non-fund Based Limits	Very Simple
Long-term / Short-term – Fund-based/ Non-fund Based Limits	Simple
Term Loan	Simple
Long-term Interchangeable	Simple
Short-term Interchangeable	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
-	Long-term Fund-based Limits	-	-	-	43.0	[ICRA]A+(Positive)
-	Short-term Non-fund Based Limits	-	-	-	38.0	[ICRA]A1+
-	Long-term / Short-term – Fund-based/ Non-fund Based Limits	-	-	-	30.0	[ICRA]A+(Positive)/[ICRA]A1+
-	Term Loan	Jan-2019	7.25%	FY2024	35.0	[ICRA]A+(Positive)
-	Long-term Interchangeable	-	-	-	(27.0)	[ICRA]A+(Positive)
-	Short-term Interchangeable	-	-	-	(15.0)	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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