March 23, 2022

Apcotex Industries Limited: Long-term rating upgraded; Short-term rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limits	43.00	78.0	[ICRA]AA-(Stable); upgraded from [ICRA]A+(Positive)/assigned
Short-term Non-fund Based Limits	38.0	54.0	[ICRA]A1+; reaffirmed/assigned
Long-term/Short-term – Fund-based/Non-fund Based Limits	30.0	30.0	[ICRA]AA-(Stable); upgraded from [ICRA]A+ (Positive)/ [ICRA]A1+; reaffirmed
Term Loan	35.0	132.0	[ICRA]AA-(Stable); upgraded from [ICRA]A+(Positive)/assigned
Long-term Interchangeable Limits^	(27.0)	(27.0)	[ICRA]AA-(Stable); upgraded from [ICRA]A+(Positive)
Short-term Interchangeable**	(15.0)	(15.0)	[ICRA]A1+; reaffirmed
Total	**146.0**	**294.0**	

**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 upgrade of the long-term rating of Apcotex Industries Limited (AIL) factors in ICRA's expectations that the company will be able to maintain a healthy financial performance, led by consistent revenue growth and a sustained margin profile. While the prices of raw materials have increased substantially in the current fiscal, the company passed on the same to its customers and hence was able to sustain the operating margins in a range of 13-16% in the last four quarters. The company is undertaking sizeable capex, which is likely to drive revenue growth, apart from diversifying the product mix and customer mix.

The ratings continue to draw comfort from a healthy capital structure and debt protection metrics due to strong tangible net worth and limited reliance on debt. While the metrics are likely to moderate due to the ongoing planned capex, they are likely to remain comfortable. The company's liquidity profile has remained strong due to healthy operational cash flows and availability of healthy cash and investments. 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 an 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 for 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 in the last few years for 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, which will be partly funded through a debt of Rs. 125 crore and the remaining through internal accruals and liquid assets. 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.
Further, 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. 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

Experience of promoters and strong position in domestic synthetic rubber and synthetic latex market – 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 the top 10 customers contributing ~30-35% of the revenues in the last 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.

Expansion in latex division has helped company diversify product profile – Synthetic latex is used in industries like paper/paper board, carpet, construction, tyre cord, speciality etc. The company is the only Indian manufacturer of XNB Latex used in gloves. There are five to six international companies with the same technology as Apcotex.

Healthy financial profile – The company reported an operating income (OI) of Rs 679.44 crore in 9MFY2022 and Rs. 540.64 crore in FY2021 on the back of increase in sales volumes and increase in sales realisation. The growth has been across industries like auto, paper, construction, textile, carpet, gloves, NBR, HSR, etc. Plants are working at full capacity and the demand for its products is more than the supply. The operating income growth was driven by certain steps taken by the management like change in product mix, customer mix (exports etc), addition of products at Valia and Taloja, expansion in new geographies and supplies to the gloves industry.

Further, 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 capex is proposed to be funded by a term loan of Rs. 125 crore, but given the healthy cash generation, ICRA does not foresee any material impact on AIL's capital structure and debt metrics.

The interest coverage stood at 38.16 times in 9M FY2022. In addition, ICRA notes the company's strong liquidity profile and significant liquid investments in the form of cash, equity and mutual funds, as well as mostly unutilised credit lines. While ICRA expects some moderation in coverage indicators and liquidity following the significant capex, these are likely to remain healthy.

Credit challenges

Significant capital expenditure towards capacity – The company is undertaking a capex of ~Rs. 200 crore. This is proposed to be funded by a term loan of Rs. 125 crore. Till date, the company has incurred around Rs. 30-40-crore capex which has been funded by a term loan of Rs. 16-17 crore. A peak debt of Rs 125 crore is expected in March 2023 if AIL avails the entire term loan. However, the term loan can be prepaid after the moratorium period if enough cash is generated. The working capital loan is expected to be at current levels, with a peak debt/equity of 0.4 times. With this term loan for capital expenditure, the credit metrics and liquidity profile is expected to show some moderation in the next few quarters.

Vulnerability of profitability to volatility in raw material prices and forex fluctuations – Raw material consumption accounts for ~70% of the sales, exposing AIL's profitability to price fluctuation risks. Its key raw materials - styrene, butadiene and acrylonitrile – have witnessed 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 overseas suppliers – 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 the 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 position is supported by robust operational cash flows and availability of healthy cash and investments. The company has a repayment obligation of Rs. 3.30 crore in FY2022 and a capex of Rs. 200 crore, which will be partly funded through a debt of Rs. 125 crore and the remaining through internal accruals and liquid assets. The utilisation of the working capital limits has remained significantly lower than the drawing power.

Rating sensitivities

Positive factors – – ICRA could upgrade AIL's ratings if the company demonstrates healthy and consistent growth in turnover and profitability, which coupled with the timely commissioning and stabilisation of new capex, will ensure a ROCE of more than 23% on a sustained basis

Negative factors – The ratings can be revised downwards in case of a material decline in operating income and profitability, leading to debt/OPBDITA remaining above 1.5 on a sustained basis.

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. AIL manufactures synthetic latex and high styrene rubber from the Taloja facility, and nitrile rubber and its allied products from the Valia facility. The company is a responsible care certified manufacturer.

Key financial indicators (audited)

	FY2020	FY2021	9MFY2022
Operating Income (Rs. crore)	495.98	540.64	679.44
PAT (Rs. crore)	16.63	44.16	67.91
OPBDIT/OI (%)	7.0%	12.9%	13.9%
PAT/OI (%)	3.4%	8.2%	10.0%
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	38.16

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	Type	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
			Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore) as on March 31, 2022	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019*
					23-Mar-22	9-Sep-21	7-Jan-21	7-Sep-20	17-Mar-20	27-Sep-19	
1	Fund-based Limits	Long-term	78.0	-	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	
2	Non-fund Based Limits	Short-term	54.0	-	[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]AA- (Stable)/ [ICRA]A1+	[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+	
4	Term Loan	Long-term	132.0	9.5	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	
5	Interchangeable	Long-term	(27.0)^	-	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	-	-	-	-	
6	Interchangeable	Short-term	(15.0)**	-	[ICRA]A1+	[ICRA]A1+	-	-	-	-	

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

** No release in FY2019*

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	-	-	-	78.0	[ICRA]AA-(Stable)
-	Short-term Non-fund Based Limits	-	-	-	54.0	[ICRA]A1+
-	Long-term / Short-term – Fund-based/ Non-fund Based Limits	-	-	-	30.0	[ICRA]AA-(Stable))/[ICRA]A1+
-	Term Loan	Jan-2019	7.25%	FY2024	7.0	[ICRA]AA-(Stable)
-	Term Loan	Oct-2021	5.45%	FY2027	125.0	[ICRA]AA-(Stable)
-	Long-term Interchangeable	-	-	-	(27.0)	[ICRA]AA-(Stable)
-	Short-term Interchangeable	-	-	-	(15.0)	[ICRA]A1+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

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

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