ICRA

April 18, 2017

Apcotex Industries Limited

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Long-term fund based	79.00 (enhanced from 50.00)	[ICRA]AA-(Stable); reaffirmed
Short-term non-fund based	7.00 (enhanced from 5.00)	[ICRA]A1+; reaffirmed
Long-term fund based & short-term non-fund based	30.00 (enhanced from 15.00)	[ICRA]AA-(Stable)/ [ICRA]A1+; reaffirmed
Unallocated Limits	Nil (earlier 6.60)	-

*Instrument Details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus)[1] to the Rs. 79.00 crore[2] (enhanced from Rs. 50.00 crore) fund based facilities of Apcotex Industries Limited ('AIL' or 'the company'). ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 7.00 crore (enhanced from Rs. 5.00 crore) non-fund based facilities of AIL. Furthermore, ICRA has reaffirmed the long-term and short-term ratings of [ICRA]AA-/[ICRA]A1+ to the long-term fund based and short-term non-fund based facilities of Rs. 30.00 crore (enhanced from Rs. 15.00 crore). The outlook on the long term rating is 'Stable'.

Rationale

The reaffirmation of ratings factor in the dominant market position of AIL in the synthetic rubber and synthetic rubber latex segments in the domestic market coupled with a strong promoter background having vast experience of more than three decades in the industry. ICRA also considers the company's reputed clientele and sizeable market share enjoyed in most of the industries to which it caters to. The ratings also take into account the healthy financial profile of the company marked by low gearing, comfortable coverage indicators and access to adequate liquidity by way of liquid investments and unutilised credit lines. The ratings continue to favourably factor in the high entry barrier in the industry, on account of significant initial capital outlay, stringent approval process for supplier in the end user industry and continuous investment in research and development (R&D), which mitigates competition risk to an extent.

The ratings are however constrained by the company's moderate scale of operations limiting its operational and financial flexibility and vulnerability of AIL's margins to any adverse volatility in raw material prices. The company also has limited bargaining power with suppliers and the raw material costs are passed onto to its customers but with a lag. This was evident during 9M FY2017 when the company witnessed a sharp decline in profitability on account of sharp increase in raw material costs which could not be passed on completely. ICRA also notes that the small size of the industry leads to stiff competition amongst existing players thereby restricting AIL's pricing flexibility.

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

[2] 100 lakh = 1 crore = 10 million

Although the acquisition of Omnova Solutions India Private Limited, the only producer of Nitrile rubber in India, is aligned with AIL's long term strategy to cater to the entire range of emulsion polymer industry, the acquired company was operationally inefficient reporting marginal operating profits. ICRA noted that AIL is in the process to turn around the inefficiencies in the acquired company through capex improvement initiatives and will continue to monitor the impact of the acquisition on the overall financial and operational profile of AIL.

Key rating drivers

Credit strengths

- Leading market position in the synthetic rubber and synthetic rubber latex segments in the domestic market
- Reputed clientele in domestic market with sizeable market share in most of the industries to which the company caters
- Strong promoter background having vast experience of more than three decades in the industry
- Strong financial profile marked by sound debt protection metrics; liquidity profile supported by adequate liquid investments, cash reserves and unutilised credit lines
- Large initial capital outlay, adequate technology and distribution network requirements act as significant entry barriers and mitigate competition risk
- Addition of a new product, nitrile butadiene rubber through acquisition where it is a leading player

Credit weaknesses

- Moderate scale of operations restricts operational and financial flexibility
- Margins remain vulnerable to any adverse volatility in raw material prices due to limited bargaining power with suppliers
- Margins contracted in 9M FY2017 due to acquisition of operationally inefficient company and significant rise in raw material prices
- Weak demand for synthetic rubber segment from the footwear industry (primary consumer) and lower realizations led to drop in operating income in FY2016, major repair works and workmen strike to impact growth in FY2017
- Increase in working capital intensity post acquisition due to higher debtors and inventory levels in the acquired company nevertheless the same is under control through contract renegotiations

Description of key rating drivers:

AIL is the market leader in domestic market in synthetic rubber and latex which finds applications in slippers, floor tiles, battery boxes, carpets, coated paperboard products, tyres, automobile components, etc. The liquidity profile remains strong with adequate liquid investments and cash reserves as well as adequate unutilised credit lines. The coverage indicators remained strong following lower borrowing levels. Post acquisition of Omnova Solutions Pvt. Ltd., the company added a new product i.e., nitrile rubber in its portfolio where it is the only producer in India. The company's operating profitability witnessed a sharp decline during 9M FY2017 on account of a sharp rise in raw material costs which could not be completely passed on. Also due to major repair work at Taloja, the production of high styrene rubber was shifted to its acquired Valia facility which has been operationally inefficient and where overhead costs are higher; this contributed to the decline in operating profit margins. The y-o-y growth in operating income in FY2017 was set-off by workmen strike during January and February 2017 which is expected to impact overall operating income growth. The acquisition also led to increase in working capital intensity of operations due to high debtors and inventory position in the acquired company. Nevertheless, AIL has managed to bring the debtors and inventory under control with contract renegotiations thus bringing down the working capital intensity.

Analytical approach: For arriving at the ratings, ICRA has considered the consolidated financial performance of AIL.

Links to applicable criteria
Corporate Credit Rating – A Note on Methodology

About the company:
Established in the year 1980 as a division of Asian Paints (India) Limited, Apcotex Industries Limited (AIL/the company) was incorporated in the year 1986. It is headed by Mr. Atul Choksey, Chairman of AIL and former Managing Director of Asian Paints Limited. The company started production of Vinyl Pyridine (VP) Latex for the first time in India, an important raw material for the tyre industry, with basic engineering and process know-how from Chemische Werke Huls (CWH) Germany. Subsequently, the Styrene Butadiene (SB) Latex and Styrene Butadiene Rubbers were developed in-house.

AIL is engaged in manufacture and marketing of two main products viz. synthetic rubber and synthetic latexes. Synthetic rubber finds application in footwear, automotive components, v-belts, conveyor belts and hoses, while the synthetic latexes are used in the industries like textiles, paper and paperboard coating and construction. In FY2016, the company acquired Omnova Solutions India Private Limited, the only producer of nitrile rubber in India, in an all cash deal for an enterprise value of Rs. 36.0 crore.

During the twelve month period ending March 31, 2016, the company (consolidated) has reported a net profit of Rs 38.53 crore on an operating income of Rs 296.46 crore. During the nine month period ending December 31, 2016, the company has reported a net profit of Rs 15.56 crore on an operating income of Rs 303.09 crore (provisional).

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable.

Rating history for last three years:

Table: Rating History

Sr. No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month-year & Rating	Month-year & Rating in FY2016	Month- year & Rating in FY2015	Month-year & Rating in FY2014
				April 2017	April 2016	January 2015	December 2014
1	Cash Credit	Long-Term	79.00	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Letter of Credit/Bank Guarantee	Short-Term	7.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
4	Cash Credit/Letter of credit/Bank Guarantee (Fungible Limits)	Long-Term/ Short-Term	30.00	[ICRA]AA- (Stable) / [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+	-	-

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

Details of Instrument

Name of the instrument	**Date of issuance**	**Coupon rate**	**Maturity Date**	**Size of the issue (Rs. crore)**	**Current Rating and Outlook**
Cash Credit	-	-	-	79.00	[ICRA]AA-(Stable)
Letter of credit/Bank Guarantee	-	-	-	7.00	[ICRA]A1+
Cash Credit/ Letter of credit/Bank Guarantee (Fungible Limits)	-	-	-	30.00	[ICRA]AA-(Stable) / [ICRA]A1+

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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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