Apcotex Industries Limited

March 30, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limits	79.0	79.0	[ICRA]AA-(Stable); Reaffirmed
Short-term Non-fund Based Limits	7.0	7.0	[ICRA]A1+; Reaffirmed
Long-term / Short-term – Fund-based/ Non-fund Based Limits	30.0	20.0	[ICRA]AA-(Stable)/ [ICRA]A1+; Reaffirmed
Total	**116.0**	**106.0**	

*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] assigned to the Rs. 79.0-crore[2] fund-based limits of Apcotex Industries Limited (AIL). ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 7.0-crore non-fund based limits of AIL. Furthermore, ICRA has reaffirmed the long-term and short-term ratings of [ICRA]AA-/[ICRA]A1+ to the Rs. 20.0-crore (revised from Rs. 30.0 crore) fund-based/ non-fund based limits of the company. 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 latex segments in India, coupled with a strong promoter background with a vast experience of more than three decades in the industry. The ratings also factor in the company's reputed clientele and sizeable market share enjoyed in most of the industries it services. The ratings favourably factor in the healthy financial profile of the company marked by low gearing, comfortable coverage indicators and access to adequate liquidity through liquid investments and unutilised credit lines. ICRA also notes the company's ongoing capital expenditure at the Valia Manufacturing Facility, aimed at improving its cost structure and freeing up additional capacity.

The ratings are, however, constrained by the vulnerability of AIL's profitability to high volatility in raw material prices (primarily styrene, butadiene and Acrylonitrile) and adverse foreign exchange movements due to significant raw material imports; although the exchange risk is partly mitigated because of a natural hedge due to exports. The company has limited bargaining power with raw material suppliers and the 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 profitability because of sharp increase in raw material costs that could not be passed on completely. ICRA also notes the stiff competition faced by the company from existing domestic players in the synthetic latex segment and from imports across all its segments, thereby restricting AIL's pricing flexibility.

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[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*

Outlook: Stable

ICRA expects AIL to maintain its position as one of the leading players in the Indian synthetic rubber and synthetic latex market. The outlook may be revised to Positive if there is sustained improvement in revenues and profitability of the company post completion of capacity de-bottlenecking and efficiency improvement initiatives at the Valia Manufacturing Facility, leading to an improved financial risk profile. The outlook may be revised to Negative if cash accruals are lower-than-expected, or a higher-than-expected capital expenditure is incurred, or the liquidity weakens.

Key rating drivers

Credit strengths

Strong promoter background and leading market position in the synthetic rubber and synthetic latex segments in India –The company was established in the year 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, 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. The company currently enjoys dominant position in the Indian synthetic rubber and synthetic latex market.

Reputed clientele in domestic market with sizeable market share in most of its end-user industries – AIL's products find application in various industries such as paper and paperboard, textiles, carpet, construction, tyre cord, footwear, automobile, and rice roll. Further, the company enjoys sizeable market share in most of its end-user industries in India. The company has a reputed customer profile with whom it has developed relations over the years which assists in procuring repeat orders.

Strong financial profile marked by sound debt protection metrics; liquidity profile supported by adequate cash and equivalents with unutilised credit lines - The liquidity profile remains strong with cash and equivalents of Rs. 61.34 crore as on September 30, 2017 as well as largely unutilised credit lines. The debt coverage indicators also remained healthy as indicated by the interest coverage of 7.9 times and the cash coverage of 186% in FY2017 owing to low borrowing levels.

Expected improvement in cost structure and capacity post completion of ongoing capital expenditure at Valia Manufacturing Facility - In FY2016, the company acquired Omnova Solutions India Private Limited (OSIPL), the only producer of nitrile rubber in India, in an all cash deal for an enterprise value of Rs. 36.0 crore. The acquisition of OSIPL was aligned with AIL's long-term strategy for the entire range of the emulsion polymer industry. The acquired company was operationally inefficient and was reporting losses prior to its acquisition. Marginal profits from the acquired company (Valia Manufacturing Facility) coupled with lower sales of synthetic latex in FY2017 led to decline in operating margins to 7.7% in FY2017 from 13.5% in FY2016. Synthetic latex sales registered de-growth in FY2017 due to loss of revenue owing to major repair works at the Taloja facility in Q1 FY2017, workers strike at the Taloja facility during January–February 2017 and lower demand from one of its major customers, BILT Graphic Paper Products Limited. However, the company has taken a number of efficiency improvement steps in the last two years to increase profitability from the acquired OSIPL facility (Valia plant in Gujarat). Coupled with favourable raw material prices in Q2 FY2018 and Q3 FY2018, this led to improvement in operating margins from 6.5% in 9M FY2017 to 10.3% in 9M FY2018. Further, the company is currently incurring Rs. 60.0 crore capital expenditure at its Valia Manufacturing Facility in two phases for efficiency improvement and increasing manufacturing capacity of nitrile rubber.

Credit challenges

Vulnerability of profitability to volatility in raw material prices and foreign-exchange fluctuations – Raw material consumption accounts for ~70% of the sales, thereby exposing AIL's profitability to the price fluctuation risk 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 partly mitigated by a natural hedge.

Intense competition from domestic players and imports - The company faces stiff competition from existing domestic players in the synthetic latex segment as well as from imports across all its segments. Any change in the regulatory environment can also adversely impact the business dynamics. Further, the company faces the threat of product substitution in some of its product categories.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Corporate Credit Rating Methodology
Rating Methodology for Entities in the Chemical Industry

About the company:

Incorporated in 1986, AIL is engaged in manufacturing 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 the synthetic latex finds application in paper and paperboard, textiles, carpet, construction, and tyre cord industries. The company has two manufacturing facilities at Taloja in Maharashtra and Valia in Gujarat. The Taloja manufacturing facility has a manufacturing capacity of 55,000 MTPA of synthetic latex and 7,000 MTPA of high styrene rubber, while the Valia manufacturing facility has a manufacturing capacity of 16,000 MTPA of nitrile rubber and its allied products.

For the nine-month period that ended on December 31, 2017 (unaudited), AIL reported a net profit of Rs. 27.0 crore on an OI of Rs. 399.0 crore

Key financial indicators (Audited)

	FY2016*	FY2017
Operating Income (Rs. crore)	296.5	390.1
PAT (Rs. crore)	38.5	19.1
OPBDIT/ OI (%)	13.5%	7.7%
RoCE (%)	22.8%	12.0%
Total Debt/ TNW (times)	0.1	0.1
Total Debt/ OPBDIT (times)	0.6	0.7
Interest Coverage (times)	13.1	7.9
NWC/ OI (%)	28%	28%

**Consolidated*

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth (TNW) + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

			Current Rating (FY2018)			Chronology of Rating History for the past 3 years				
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
	Instrument	Type			March 2018	April 2017	May 2016	-	January 2015	December 2014
1	Fund-based Limits	Long-term	79.0	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	Withdrawn
2	Non-fund Based Limits	Short-term	7.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	Withdrawn
3	Fund-based/ Non-fund Based limits	Long-term/ Short-term	20.0	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	-
4	Term Loan	Long Term	-	-	-	-	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	-
5	Unallocated Limits	Long-term/ Short-term	-	-	-	-	[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-based Limits	NA	NA	NA	79.0	[ICRA]AA-(Stable)
NA	Short-term Non-fund Based Limits	NA	NA	NA	7.0	[ICRA]A1+
NA	Long-term / Short-term – Fund-based/ Non-fund Based Limits	NA	NA	NA	20.0	[ICRA]AA-(Stable)/ [ICRA]A1+

Source: Apcotex Industries Limited
** includes Rs. 6.0 crore of Letter of Credit/Bank Guarantee and Rs. 1.0 crore of Forward Contract Limit*

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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.

For more information, visit www.icra.in

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