

March 17, 2020

Apcotex Industries Limited: Ratings reaffirmed; outlook revised to Negative

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]AA- reaffirmed; outlook revised to Negative from Stable
Short-term Non-fund Based Limits	28.0	28.0	[ICRA]A1+; reaffirmed
Long-term / Short-term – Fund-based/ Non-fund Based Limits	20.0	20.0	[ICRA]AA- reaffirmed; outlook revised to Negative from Stable / [ICRA]A1+;reaffirmed
Term Loan	15.0	15.0	[ICRA]AA- reaffirmed; outlook revised to Negative from Stable
Total	116.0	116.0	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook of Apcotex Industries Limited (AIL) is on account of weaker than expected performance during YTD FY2020 and subdued industry outlook for Nitrile Butadiene Rubber (NBR) 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 has adversely impacted volumes and realisations during YTD 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, with the price differential between Europe and Asia of a key raw material butadiene increasingly substantially, exports of AIL have slumped owing to increased competitiveness of European competitors. Accordingly operating income and operating profits have deteriorated during 9M FY2020 on YoY basis. For 9M FY2020, AIL reported a profit after tax (PAT) of Rs. 13.6 crore on an operating income (OI) of Rs. 380.4 crore as against a PAT of Rs. 31.3 crore on an OI of Rs. 473.9 crore for 9M FY2019. However, the ratings continue to factor in the respectable market position of Apcotex Industries Limited (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 factor in the company's reputed clientele and respectable market share in most of its end-user industries. The ratings favourably factor in 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 ratings are, however, constrained by AIL's major capital expenditure plan of ~Rs. 250.0 crore over the next three years towards addition of manufacturing capacity. Given the capital expenditure plans, the debt levels may increase from the current levels, which could lead to 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 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 its profitability because of a sharp increase in raw material costs that could not be passed on completely. ICRA also notes the stiff competition faced by the company from the existing domestic players in the synthetic latex segment and from imports across all its segments, thereby restricting AIL's pricing flexibility.

The Negative outlook on the [ICRA]AA- rating reflects ICRA's opinion that AIL revenue and profitability is likely to be impacted due a subdued industry outlook for its NBR product which contributes to ~35% of the operating income.

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, 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, it enjoys 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 paperboard, textiles, carpet, construction, tyre cord, footwear, automobile, and rice roll. The company has a reputed customer profile, with which it has developed relations 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. 74.6 crore as on March 31, 2019, as well as primarily unutilised credit lines. The debt coverage indicators remained healthy, as indicated by Total Debt/OPBDIT of 0.1 times and interest coverage of 19.9 times in FY2019 owing to low borrowing levels.

Credit challenges

Significant capital expenditure plans towards capacity expansion could lead to moderation in debt coverage indicators – At present, the company is incurring Rs. 90.0-crore capital expenditure at its manufacturing facilities for efficiency improvement and increasing manufacturing capacity of nitrile rubber to around 21,000 metric tonnes per annum (MTPA) from 16,000 MTPA through debottlenecking.

Apart from above plan, the company plans to incur ~Rs. 250.0-crore capital expenditure over the next three years towards manufacturing capacity addition for carboxylated nitrile latex and nitrile rubber. It is still awaiting final environmental clearances for the project, post which there will be clarity on the execution timelines. Given the capital expenditure plans, the debt levels may increase from the current levels, which could lead to moderation in credit metrics.

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 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 mitigated by a natural hedge and entering into appropriate forward cover contracts.

Intense competition from domestic players and imports – The company faces stiff competition from the existing domestic players in the synthetic latex segment as well as from imports across all its segments. Approximately 30% of AIL's sales is contributed by automobile industry and ~8-12% of its sales is contributed by the construction industry. Given, the current slowdown in the automobile and construction industries, pressure on sales volume and profit margins

is expected in the near term. Moreover, any change in the regulatory environment/duty structure can also adversely impact the business dynamics.

Liquidity position: Adequate

The liquidity profile of the company is expected to remain adequate with consistent cash accruals and low debt repayments. Further, the company has unencumbered cash and bank balance and liquid investments of Rs. 74.6 crore as on March 31, 2019. The average fund-based working capital bank limits utilisation remained low during YTD FY2020. Hence, AIL enjoys additional liquidity cushion in the form of Rs. 60.0 crore of primarily unutilised working capital credit lines as on December 2019 end.

Rating sensitivities

Positive triggers – ICRA could upgrade the AIL’s rating outlook if the company demonstrates operating margins more than 10% on sustained basis.

Negative triggers – Negative pressure on AIL’s rating could arise if AIL reports ROCE below 20% on 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	The rating is based on the standalone business and financial profile of the company.

About the company

Incorporated in 1986, AIL is involved 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 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 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 16,000 MTPA of nitrile rubber and its allied products.

For 9M FY2020, AIL reported a profit after tax (PAT) of Rs. 13.6 crore on an operating income (OI) of Rs. 380.4 crore, against a PAT of Rs. 31.3 crore on an OI of Rs. 473.9 crore for 9M FY2019.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	526.2	625.7
PAT (Rs. crore)	38.6	46.6
OPBDIT/OI (%)	12.6%	11.1%
RoCE (%)	23.4%	25.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.4
Total Debt/OPBDIT (times)	0.3	0.1
Interest Coverage (times)	24.1	19.9
DSCR	19.1	15.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2020)						Chronology of Rating History for the Past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018		Date & Rating in FY2017	
				17-March, 2020	27-Sep, 2019	-	30-March 2018	18-April 2017	20-May 2016	
1 Fund-based Limits	Long-term	53.0	-	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	-	[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+	
3 Fund-based/ Non-fund Based limits	Long-term/ Short-term	20.0	-	[ICRA]AA- (Negative)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	
4 Term Loan-1	Long Term	15.0	-	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	-	-	-	-	
5 Term Loan-2	Long Term	-	-		-	-	-	-	[ICRA]AA- (Stable)	
6 Unallocated Limits	Long-term/ Short-term	-	-		-	-	-	-	[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	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]AA-(Negative)
-	Short-term Non-fund Based Limits	-	-	-	28.0	[ICRA]A1+
-	Long-term / Short-term – Fund-based/ Non-fund Based Limits	-	-	-	20.0	[ICRA]AA-(Negative)/ [ICRA]A1+
-	Term Loan	Jan- 2019	-	FY2024	15.0	[ICRA]AA-(Negative)

Source: Apcotex Industries Limited

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