

September 07, 2020

Apcotex Industries Limited: Ratings 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	53.0	53.0	[ICRA]AA- (Negative); reaffirmed
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	30.0	[ICRA]AA- (Negative)/ [ICRA]A1+; assigned and reaffirmed
Term Loan	15.0	35.0	[ICRA]AA- (Negative); assigned and reaffirmed
Total	116.0	146.0	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings factors in the respectable market position of Apcotex Industries Limited (AIL) in the synthetic rubber and synthetic latex segments in India and the 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 healthy market share in most of its end-user industries. The ratings favourably reflect AIL's healthy financial profile, marked by low gearing, comfortable coverage indicators and access to adequate liquidity through liquid investments and unutilised credit lines. However, the negative outlook is because of the weak performance of Apcotex Industries Limited (AIL) in FY2020, 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 Q2 and Q3 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, the price differential between Europe and Asia of a key raw material, butadiene, increased substantially in Q2 and Q3 FY2020 because of which domestic sales and exports of AIL slumped as Europe had the competitive advantage. Accordingly, the operating income and profits deteriorated in FY2020. In FY2020, AIL reported a profit after tax (PAT) of Rs. 16.6 crore on an operating income (OI) of Rs. 496.0 crore as against a PAT of Rs. 46.6 crore on an OI of Rs. 625.7 crore for FY2019. Even though the price differential of Butadiene between Europe and Asia has corrected, the weak performance continued in Q1 FY2021 owing to the suspension of operations from March 22, 2020 for about a month and the slump in demand due to Covid-19 related lockdowns. Accordingly, the company posted an operating income of Rs 59.9 crore and a net loss of Rs 6.7 crore in Q1FY2021 as against an operating income of Rs 146.7 crore and a net profit of Rs 11.4 crore in Q1FY2020. Nevertheless, the capacity utilisation and the demand have now recovered to pre-Covid levels. Additionally, India has levied anti-dumping duties (ADD) on NBR imports from certain South Korean manufacturers which are due to expire in September 2020. The company has filed petition for renewal of ADD on South Korean manufacturers and fresh ADD on manufacturers in Russia, China, Japan and the EU. The imposition and the quantum of anti-dumping duties is crucial for sustenance of the profitability of the company and would remain a key monitorable.

The company is in the midst of a capex of Rs. 100 crore for setting up a plant of 45,000 MTPA capacity for the manufacture of XNB Latex that is used to produce gloves. The funding plans are not yet finalised, though the payback period for the project is 2.5 years as per the management. Additionally, the company has plans to set up an additional NBR capacity of 20,000 MTPA at a capex of Rs 180-200 crore, which is contingent on the ADD being in place to enable adequate returns from the project. Accordingly, ICRA has not factored the same and will review the ratings in case the company plans to go ahead with the project. The ratings are, however, constrained by the project execution risk owing to AIL's capital expenditure plan towards addition of XNB Latex manufacturing capacity. Given the capital expenditure

plans, the debt levels may increase from the current levels, which could lead to some 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 competition faced by the company from the 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 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, the company 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 strong relationship 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. 66.1 crore as on March 31, 2020, as well as primarily unutilised credit lines. The debt coverage indicators remained healthy, as indicated by Total Debt/OPBDIT of 1.4 times and interest coverage of 14.3 times in FY2020, owing to low borrowing levels.

Credit challenges

Significant capital expenditure plans towards capacity expansion could moderate debt coverage indicators – Over the last four years (FY2017 to FY2020), the company has incurred Rs. 95.0-crore capital expenditure at its manufacturing facilities for improving efficiency and increasing the manufacturing capacity of nitrile rubber to around 20,000 metric tonnes per annum (MTPA) from 16,000 MTPA through debottlenecking.

Apart from above plan, the company plans to incur ~Rs. 100.0-crore capital expenditure over the next two years towards adding capacity for the manufacture of XNB latex; the project is expected to be commissioned by December 2021. The funding plans for the aforementioned project are not yet finalised, though the payback period for the project is 2.5 years as per the management. Given the capital expenditure plans, the debt levels may increase from the current levels, which could lead to some 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, 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 appropriate forward cover contracts.

Intense competition from domestic players and imports – The company faces competition from the existing domestic players in the synthetic latex segment as well as from imports across all its segments. Approximately 16-17% of AIL's sales is contributed by the automobile industry and ~8-12% of its sales is contributed by the construction industry. Given, the current slowdown in the automobile and the construction industries, pressure on sales volumes and profit margins is expected in the near term. Moreover, any change in the regulatory environment/duty structure/ADD can also adversely impact the business dynamics.

Liquidity position: Strong

The liquidity profile of the company is expected to remain strong with steady cash accruals and low debt repayments. Further, the company has unencumbered cash and bank balance and liquid investments of Rs. 66.1 crore as on March 31, 2020. The average fund-based working capital bank limits utilisation remained at ~17% of the total sanctioned limits during the 15-month period ending June 2020. Hence, AIL enjoys additional liquidity cushion in the form of Rs. 50.0 crore of unutilised working capital credit lines.

Rating sensitivities

Positive triggers – ICRA could revise AIL's rating outlook to stable if the company demonstrates healthy revenue growth, with operating margins more than 10% on sustained basis.

Negative triggers – Negative pressure on AIL's rating could arise in case of pressure on the company's revenues and profitability owing to non-renewal or imposition of inadequate anti-dumping duties on imports of NBR. Additionally, ROCE below 20% on sustained basis could also trigger a rating downgrade.

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 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 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 20,000 MTPA of nitrile rubber and its allied products.

For the three-month period that ended on June 30, 2020, AIL reported a net loss of Rs. 6.7 crore on an operating income (OI) of Rs. 59.9 crore, against a profit after tax (PAT) of Rs. 11.4 crore on an OI of Rs. 146.7 crore for the three-month period that ended on June 30, 2019.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	625.7	496.0
PAT (Rs. crore)	46.6	16.6
OPBDIT/OI (%)	11.1%	7.0%
RoCE (%)	25.7%	10.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.6
Total Debt/OPBDIT (times)	0.1	1.4
Interest Coverage (times)	19.9	14.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Type	Current Rating (FY2021)			Chronology of Rating History for the Past 3 years				
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) (31-Mar-2020)	Date & Rating	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018	
						07-September, 2020	17-March, 2020		27- Sep, 2019	-
1	Fund-based Limits	Long-term	53.0	-	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	[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	30.0	-	[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-1	Long Term	35.0	30.0	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)	-	-	-

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	-	-	-	30.0	[ICRA]AA-(Negative)/ [ICRA]A1+
-	Term Loan	Jan-2019	-	FY2024	35.0	[ICRA]AA-(Negative)

Source: Apcotex Industries Limited

Analyst Contacts

K Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Prashant Vasisht

+91 124 4545 322

prashant.vasisht@icraindia.com

Sonam Kumari Agarwal

+91 22 61693356

sonam.agarwal@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents