August 31, 2023

Amines and Plasticizers 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 – Term loan	14.00	4.25	[ICRA]A- (Stable); reaffirmed
Long-term – Fund-based – Working capital facilities	67.00	100.00	[ICRA]A- (Stable); reaffirmed & assigned for enhanced amount
Long term – Interchangeable	(35.00)	(42.00)	[ICRA]A- (Stable); reaffirmed & assigned for enhanced amount
Short-term - Non-fund based	29.00	29.75	[ICRA]A2+; reaffirmed & assigned for enhanced amount
Total	**110.00**	**134.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation of Amines and Plasticizers Limited (APL) considers its long and established track record of operations and the technical expertise of the promoters in the chemical manufacturing segment. The ratings also factor in the company's healthy financial risk profile, characterised by comfortable capitalisation and debt coverage indicators. The ratings continue to take into account the company's strong position in the domestic market in manufacturing chemical products like methyl diethanolamine (MDEA), ethyl mono ethanolamine (EMEA) and N-methyl morpholine oxide (NMMO).

APL's profitability, however, remains vulnerable to the volatility in raw material prices and utility costs, as witnessed in FY2022 and FY2023 when the operating margins moderated to around 7.1%. However, with the easing of input prices and gas costs, APL's operating margins recovered to 10.3% in Q1 FY2024 and the company is expected to witness a healthy recovery in its operating profits. The supplier concentration risk also remains high for the company as it is dependent on a sole supplier for the sourcing of a major raw material i.e. ethylene oxide (EO).

The ratings also take into consideration the vulnerability of profitability to foreign exchange fluctuations as exports contribute to 40-50% of the total revenues. However, the imports provide a natural hedge to the company to some extent. Further, the revenue share of the NMMO/morpholine segment declined in FY2023 on account of increased competition in key markets.

The Stable outlook considers the company's established position in the ethanolamine and morpholine segments, which coupled with its adequate liquidity profile, should support the company's credit profile in the medium term, despite its susceptibility to the volatility in raw material prices and utility costs.

Key rating drivers and their description

Credit strengths

Long operating track record and experience of promoters – For over four decades, the promoters have been involved in the manufacturing and trading of organic chemicals such as ethanolamines and morpholine. At present, APL is one of the largest producers of ethanolamines, morpholine, alkyl morpholine and gas treating solvents in India. These products find wide application in oil refineries, natural gas plants, ammonia plants, petrochemical plants, pharmaceuticals and agrochemical industries.

Healthy market position in ethanolamine and morpholine derivative segments – APL's main products include MDEA used in the petrochemical industry and at oil refineries, EMEA used in the pharmaceutical industry, and NMMO used as a solvent in the viscose fibre industry. These products contribute to majority of the company's total revenue. APL has a healthy share in these product segments in the domestic market and also caters to reputed companies in the overseas market. It generates 40-50% of its overall revenues from exports, mainly to the UAE, Turkmenistan, the US and Turkey. In FY2023, the company faced headwinds in the NMMO segment with the entry of Chinese players, which impacted APL's NMMO sales.

Healthy capital structure and coverage indicators – The company's capital structure and coverage indicators have remained comfortable over the years, driven by adequate although volatile profitability, and the limited long-term debt, which has resulted in moderate debt levels. As on March 31, 2023, the gearing remained at 0.5 times (PY : 0.4 times), interest coverage was 4.2 times (PY : 4.6 times) and the total debt/OPBDITA 2.0 times (PY : 1.8 times). The capitalisation and coverage indicators are expected to improve gradually over the medium term on the back of expected steady accruals and repayment of term loans with no anticipated major debt-funded capex in the near term.

Credit challenges

Vulnerability of profitability to fluctuations in raw material prices and utility costs – The company's profitability remains susceptible to the volatility in raw material prices and utility costs which are the major cost drivers for the company. The company's orders comprise fixed-price long-term contracts as well as spot contracts and it has the ability to partially pass on the volatility in input costs in some contracts. In FY2023, the company's revenue grew marginally by 5% to ~Rs. 597 crore, driven by growth in realisation although manufactured volumes declined. Further, its operating profit margin remained under pressure at 7.1% in FY2023, in line with that of the previous year, due to elevated prices of raw material and natural gas. However, with the moderation in raw material prices and power costs, the company has been able to post an OPM% of ~10.3% in Q1 FY2024.

High supplier concentration risk – APL depends on a sole supplier for the sourcing of a major raw material, ethylene oxide (EO). This exposes the company to high supplier concentration risk, wherein the sole supplier dictates the pricing terms and condition of the raw materials and limits the upward movement of the company's profitability to an extent.

Foreign currency fluctuation risk – Exports account for around 48% of the total revenues in FY2023, which makes the profitability vulnerable to forex rate fluctuations. However, the imports provide a natural hedge to the company to some extent. The company does not hedge its net forex exposure and thus remains exposed to forex rate movements for the unhedged portion.

Liquidity position: Adequate

APL's liquidity is adequate, marked by healthy cash accruals and moderate debt repayments. The company has a sanctioned fund-based limit of Rs. 100 crore, while the average working capital utilisation for its fund-based limits was 77% for the 12-month period ended June 2023. The company's working capital intensity has increased over the last couple of years which has impacted the cash flow from operations. However, the CFO in FY2024 is expected to remain adequate to meet the debt repayments and capex requirements. The cushion available in the fund-based limits supports the company's liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade APL's ratings if there is improvement in scale and profitability margins on a sustained basis while maintaining a healthy liquidity profile.

Negative factors – Any deterioration in the scale of operations and profitability margins on a sustained basis, or any stretch in the working capital cycle weakening the overall liquidity profile would have a negative impact on the ratings. A specific credit metric for downgrade would be TOL/TNW above 1.50 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology] [Rating Methodology for Entities in the Chemical Industry]
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has used the consolidated financials of APL for assigning the ratings. The details of entities that form part of the consolidated financials are given in Annexure-II

About the company

APL was incorporated in 1973 to take over the project of India Carbons Limited (ICL) for manufacturing 3,000 tonnes of plasticizers (DOP-di-octyl phthalate) per annum, the licence for which was received by ICL in 1970. Initially, the company commenced operations by manufacturing plasticizers used in polyvinyl chloride (PVC), which derives its ultimate application in the plastic industry. APL diversified its product profile and started manufacturing different varieties of organic and inorganic chemical compounds like ethanolamines, alkyl alkanolamines, plasticizers, morpholine, alkyl morpholines and gas treating solvents (mainly methyl diethanolamine) and morpholine oxide, which are used in oil refineries, natural gas plants, ammonia plants, petrochemical plants, pharmaceuticals, textile, oilfield chemicals, cosmetics and the agrochemical industry. Currently, APL is a pioneer and one of the largest producers of ethanolamines, morpholine, alkyl morpholine and gas treating solvents in India. It is a global supplier of organic chemicals, which find application across various industries.

Key financial indicators (audited)

APL Consolidated	FY2022	FY2023
Operating income	563.2	597.3
PAT	23.9	22.9
OPBDIT/OI	7.1%	7.1%
PAT/OI	4.2%	3.8%
Total outside liabilities/Tangible net worth (times)	0.9	0.9
Total debt/OPBDIT (times)	1.8	2.0
Interest coverage (times)	4.6	4.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on June 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Aug 31, 2023	Aug 08, 2022	Jul 14, 2021	Apr 06, 2020
1	Term loan	Long term	4.25	1.35	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2	Cash credit	Long term	100.00	--	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
3	Interchange able limits	Long term	(42.00)	--	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
4	Non-fund based	Short term	29.75	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Fund-based – Cash credit	Simple
Long-term – Fund-based – Interchangeable	Simple
Short-term – Non-fund based	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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan**	Mar-2019	-	Sep-2024	4.25	[ICRA]A- (Stable)
NA	**Cash credit**	-	-	-	100.00	[ICRA]A- (Stable)
NA	**Interchangeable limits**	-	-	-	(42.00)	[ICRA]A- (Stable)
NA	**Non-fund based limits**	-	-	-	29.75	[ICRA]A2+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidated Approach
APL	Parent	Full Consolidation
Amines and Plasticizers FZ LLC	100.0 %*	Full Consolidation

**Owned by APL*

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About ICRA Limited:

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