June 14, 2024

Apcotex Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based limits	78.0	78.0	[ICRA]AA-(Stable); reaffirmed
Short-term non-fund based limits	54.0	54.0	[ICRA]A1+; reaffirmed
Long-term/Short-term – Fund-based/Non-fund based Limits	60.0	60.0	[ICRA]AA-(Stable)/[ICRA]A1+; reaffirmed
Long-term - Term loan	125.0	125.0	[ICRA]AA-(Stable); reaffirmed
Long-term interchangeable limits^	(27.0)	(27.0)	[ICRA]AA-(Stable); reaffirmed
Short-term interchangeable**	(30.0)	(81.0)	[ICRA]A1+; reaffirmed
Total	**317.0**	**317.0**	

**Instrument details are provided in Annexure-I*

*^Interchangeable with long-term fund-based limits; **Interchangeable with long-term/short-term fund-based/non-fund based limits*

Rationale

The reaffirmation of the ratings of Apcotex Industries Limited (AIL) factors in the healthy growth in its volumes in FY2024, driven by the change in product and customer mix and increase in exports, and ICRA expects the trend to continue, going forward. The ratings continue to draw comfort from AIL's healthy capital structure, despite the addition of debt for the capex, owing to a strong tangible net worth. The company's liquidity profile has remained comfortable due to its healthy operational cash flows and the availability of cash and investments of around Rs. 120 crore as on March 31, 2024.

The ratings draw comfort from AIL's strong market position in the synthetic rubber and synthetic latex segments in India and the experience of its promoters of more than three decades in the industry. The ratings factor in the company's diversified customer base across various end-user industries.

The operating margins have moderated over the last year, largely in the synthetic rubber segment, which along with the inventory losses caused by the correction in raw material prices have weakened the debt metrics to some extent. However, the debt metrics continue to be comfortable and are expected to improve, going forward. The profitability is likely to remain depressed for a few more quarters amid weak demand for a few products. The low demand has constrained the capacity utilisation of the new facilities and, hence, the return metrics have also moderated. ICRA notes that the company has been regularly incurring capex in the last few years for debottlenecking, improving the efficiency and increasing the capacities. It has further completed detailed engineering to enhance its capacity for nitrile butadiene rubber (NBR); however, any further capex decision will be taken only after the current operations stabilise.

Further, the ratings factor in the vulnerability of its profitability to high volatility in raw material prices (primarily styrene, butadiene, and acrylonitrile) and the adverse foreign exchange (forex) movements due to significant raw material imports, along with competition from other suppliers. However, the exchange risk is partly mitigated by the natural hedge from its exports.

Key rating drivers and their description

Credit strengths

Strong promoter background and 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, headed by Mr. Atul Choksey, the former Managing Director of Asian Paints Limited. Mr. 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 personnel who are experts in the field of chemicals, bring valuable experience to the company. The company enjoys a strong market presence in the Indian synthetic rubber and synthetic latex market.

Diversified clientele across various end-user industries – AIL's clientele has remained diversified with the top 10 customers contributing 20-30% to the revenues in the last two years. The products find application in various industries such as paper and paperboards, gloves, textiles, carpet, construction, tyre cord, footwear, automobile and rice roll. In addition, the company has developed strong relationships with reputed players across these industries.

Diversified product profile with expansion in latex division – Synthetic latex is used in industries like paper/paper board, carpet, construction, tyre cord, speciality etc. The management has taken conscious efforts to diversify the sales. Earlier, the sales were highly skewed towards the paper and the footwear industries, which has reduced over the years. The company also manufactures XNB latex used in gloves. AIL is the only manufacturer of nitrile rubber and high styrene rubber in India. At present, 70-75% of the total domestic requirement of NBR is met through imports and the remaining 25-30% by AIL.

Healthy financial profile; adequate liquidity supported by availability of cash and equivalents with unutilised credit lines – The company's reliance on external borrowings had been low in the past due to its strong net worth on account of its healthy accruals and moderate working capital intensity. However, over the last two years, the company undertook debt-funded capex to expand the capacity at Taloja and Valia, which was funded through a debt of Rs. 125 crore. Additional debt funding may be required if the company goes ahead with the NBR capex. ICRA does not foresee significant impact on the capital structure due to its strong tangible net worth and the limited debt on its balance sheet.

The company's coverage indicators moderated in FY2024 with the increase in debt and pressure on the margins and are likely to remain depressed, though comfortable, in FY2025. Going forward, the coverage indicators are expected to improve as the profitability improves and the debt levels reduce. In addition, ICRA notes the company's adequate liquidity profile and significant liquid investments in the form of cash, equity and mutual funds, as well as cushion in fund-based limits.

Credit challenges

Debt-funded capex, pressure on margins weaken debt coverage indicators, though these remain comfortable - The company undertook a capex of ~Rs. 200 crore towards capacity expansion, funded by a term loan of Rs. 125 crore. The addition of term loan and the moderation in profitability weakened the credit metrics to some extent, though these remain comfortable. Going forward, the debt metrics are expected to witness a steady improvement.

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 risks. Its key raw materials - styrene, butadiene and acrylonitrile – have witnessed high price volatility in the past. Further, given the company's nature of business, it benefits when raw material prices rise and vice-versa, as has been the case last year. However, a steep fall in petrochemical prices has partly impacted the margins. Also, AIL is heavily dependent on imported raw materials and given the uncertainties in the supply chain over the last two years, the inventory days have increased and continue to be so. Further, the company is exposed to forex fluctuation risk owing to its significant exports and imports, though the risk is mitigated by a natural hedge and appropriate forward cover contracts.

Liquidity position: Adequate

The liquidity position is supported by AIL's comfortable operational cash flows and the availability of cash and investments of around Rs. 120 crore as on March 31, 2024. The company has maintained adequate cushion in its working capital limits and the utilisation of these limits has remained lower than the drawing power. While the company has undertaken sizeable debt-funded capex in the past and is considering the debt route for the future as well, ICRA expects the company to maintain adequate cash and investments to meet any exigencies.

Rating sensitivities

Positive factors – ICRA could upgrade AIL's ratings if the company demonstrates a healthy and consistent growth in its turnover and profitability, which coupled with the ramp-up of its new capacity, should result in a robust cash flow.

Negative factors – The ratings can be revised downwards in case of a material decline in the operating income and profitability that would impact AIL's liquidity profile or keep the debt/OPBDITA above 1.5 times on a 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	Standalone

About the company

AIL, incorporated in 1986, is engaged in the 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 the footwear, automobile, and rice roll industries, while synthetic latex is used in the 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 1,00,000 MTPA of synthetic latex, while the Valia unit has a manufacturing capacity of 21,000 MTPA of nitrile rubber and its allied products. An additional 50,000 MTPA of XNBR latex has been installed at Valia, which will be expanded to 80,000 MTPA in the next phase.

Key financial indicators (audited)

	FY2022	FY2023	FY2024
Operating income	956.9	1,079.9	1,124.6
PAT	98.8	107.9	53.9
OPBDIT/OI	14.6%	14.7%	10.1%
PAT/OI	10.3%	10.0%	4.8%
Total outside liabilities/Tangible net worth (times)	0.5	0.7	0.8
Total debt/OPBDIT (times)	0.4	1.0	1.7
Interest coverage (times)	43.0	31.3	7.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
					Jun 14, 2024	May 12, 2023	-	Mar 23, 2022	Sep 09, 2021
1	Fund-based limits	Long-term	78.0	--	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)
2	Non-fund based limits	Short-term	54.0	--	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
3	Fund-based/Non-fund based limits	Long-term / Short-term	60.0	--	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Positive)/ [ICRA]A1+
4	Term loan	Long-term	125.0	124.76	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)
5	Interchangeable	Long-term	(27.0)^	--	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)
6	Interchangeable	Short-term	(81.0)**	--	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+

*^Interchangeable with long-term fund-based limits; **Interchangeable with long-term/short-term fund-based/non-fund based limits*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based limits	Simple
Short-term non-fund based limits	Very Simple
Long-term/Short-term – Fund-based/Non-fund based limits	Simple
Term loan	Simple
Long-term interchangeable	Simple
Short-term interchangeable	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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
-	**Long-term fund-based limits**	-	-	-	78.0	[ICRA]AA-(Stable)
-	**Short-term non-fund based limits**	-	-	-	54.0	[ICRA]A1+
-	**Long-term / Short-term – Fund-based/Non-fund based limits**	-	-	-	60.0	[ICRA]AA-(Stable))/[ICRA]A1+
-	**Term loan**	Oct-2021	7.70%	FY2027	125.0	[ICRA]AA-(Stable)
-	**Long-term interchangeable**	-	-	-	(27.0)	[ICRA]AA-(Stable)
-	**Short-term interchangeable**	-	-	-	(81.0)	[ICRA]A1+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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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.

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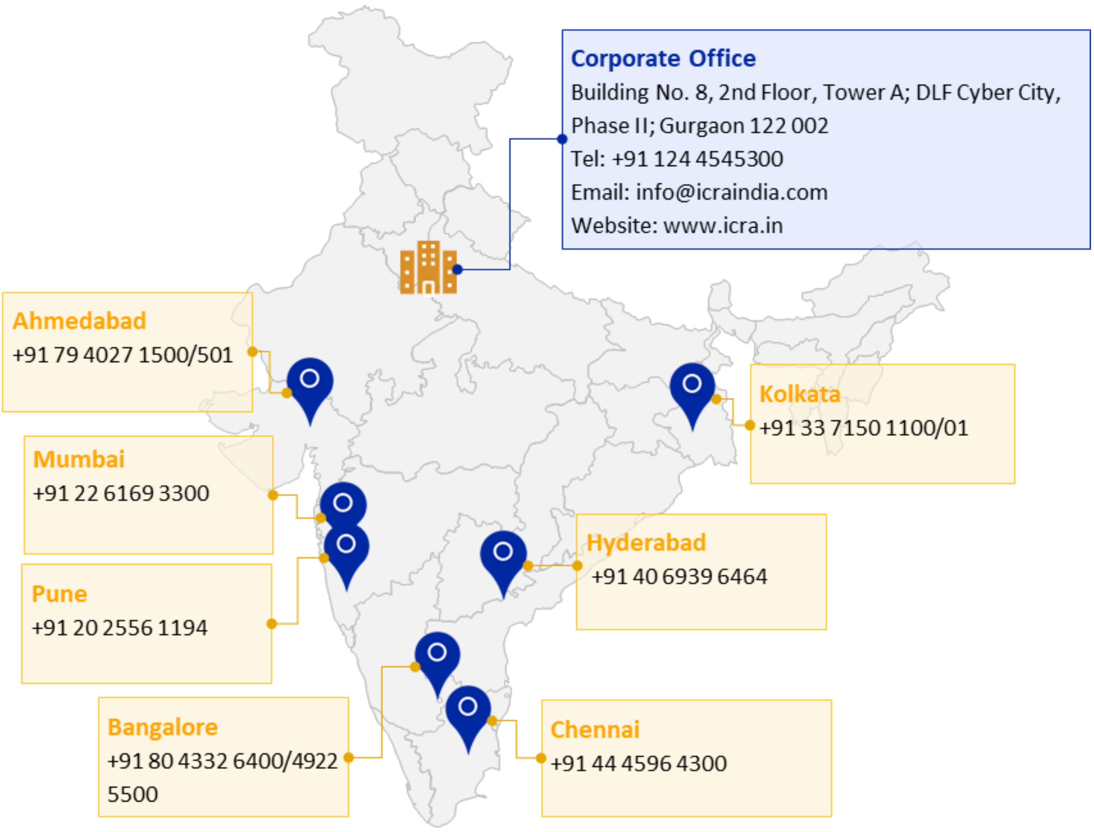

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