January 29, 2025

Indian Synthetic Rubber Private Limited: [ICRA]AA-(Stable)/[ICRA]A1+ assigned

Summary of rating action

Instrument*	Current rated amount (Rs. crore)	Rating action
Long term - Cash credit – Fund-based	250.00	[ICRA]AA- (Stable); assigned
Short term – Others – Non-fund based	100.00	[ICRA]A1+; assigned
Total	**350.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings assigned to Indian Synthetic Rubber Private Limited (ISRPL) factor in its established position in manufacturing emulsion-styrene butadiene rubber (E-SBR), along with its strong promoter group and a healthy financial risk profile. ISRPL operates as a 50:50 joint venture (JV) between Indian Oil Corporation Limited {IOCL, rated [ICRA]AAA (Stable)/[ICRA]A1+} and Trimurti Holding Corporation, a 100% subsidiary of Taiwan-based TSRC Corporation which is the technology licensor and has a track record of operating similar projects. The JV is supported by a secured supply of major feedstock - butadiene - through a long-term agreement with IOCL. This feedstock is delivered via a pipeline from IOCL's naphtha cracker plant. Additionally, ISRPL benefits from the technological and R&D capabilities of TSRC, having many patents and innovations specific to synthetic rubber and thermoplastic elastomers.

ISRPL's financial risk profile remains robust with healthy profitability, a comfortable capital structure and a strong liquidity position. The company's capital structure remains comfortable with gearing of 0.3x and TD/OPBDITA of 0.9x in FY2024. Going forward, the TD/OPBDITA is expected to stay comfortable. The debt coverage metrics remain healthy with interest coverage ratio of 10.4x and DSCR (debt service coverage ratio) of 6.7x in FY2024. The coverage metrics are projected to remain comfortable, supported by healthy profitability. The ratings also take into account ISRPL's well-diversified and reputed customer base.

The ratings are, however, constrained by the company's high dependence on the tyre manufacturing segment, which constituted ~80% of its sales in FY2024. While these customers are established and reputed players in the tyre industry, the concentration of revenues in this sector exposes the company to cyclical risks and demand fluctuations in the automotive market. Additionally, the ratings factor in the vulnerability of its profitability to high volatility in raw material prices, primarily styrene and butadiene, which are critical inputs for E-SBR production. However, the risk is partially mitigated by the procurement of butadiene from IOCL under a formula-based pricing arrangement, lending some stability to the sourcing cost. Further, the profitability of ISRPL is exposed to the volatility in foreign exchange fluctuations, along with competition from other suppliers.

The Stable outlook on the long-term rating reflects ICRA's expectation that ISRPL will continue to benefit from its established market position and experience in the E-SBR segment. Further, the outlook underlines ICRA's expectation that the entity's incremental capex for capacity expansion will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Strong promoter group and established presence in synthetic rubber industry - ISRPL is promoted by IOCL and TSRC Corporation**.** The collaboration combines IOCL's expertise in the hydrocarbon sector and TSRC's decades of experience in the synthetic rubber industry across the Asia-Pacific region. IOCL is India's largest oil marketing company (OMC) with business interests straddling the entire hydrocarbon value chain – from refining, pipeline transportation and marketing of petroleum products to the exploration and production of crude oil and gas, marketing of natural gas and petrochemicals. TSRC has over 30 years of technological expertise in producing various grades of commodity and specialty products in the synthetic rubber industry and is one of the major synthetic rubber manufacturers in the Asia Pacific. ISRPL has established itself as a dominant player in the synthetic rubber industry in India, leveraging the promoters' technology and extensive expertise to produce emulsion polymerised styrene butadiene rubber (E-SBR).

Strategic synergies and growth opportunities through JV Partnership - ISRPL's E-SBR manufacturing is a critical forward-integration step, leveraging IOCL's Panipat naphtha cracker plant to ensure a consistent and reliable supply of butadiene, a key raw material used in the production of E-SBR. This integration provides synergies in the supply of utilities like steam, power and raw water from IOCL, improving the operational efficiency and reducing costs. Additionally, the company benefits from the advanced technology and R&D expertise of TSRC, having many patents and innovations specific to synthetic rubber and thermoplastic elastomers.

Reputed customer profile- The customer profile of the company primarily consists of well-established clients from the tyre sector. The top 5 customers accounted for ~77% of the company's total revenue in FY2024. Key customers include major tyre manufacturers such as MRF Limited, CEAT Limited, Goodyear Tire and Rubber Company, Apollo Tyres Ltd. and JK Tyre and Industries Limited.

Healthy financial risk profile with comfortable capital structure and healthy coverage indicators - ISRPL's revenue decreased by ~1.7% YoY in FY2024 on account of lower realisations. However, the operating margin improved to ~20.6% in FY2024 from ~16.2% in FY2023 because of decrease in key raw material prices with drop in crude oil prices and surplus production of both butadiene and styrene**.** In addition, ISRPL reported healthy revenues in H1 FY2025 at ~Rs. 988.7 crore and an operating margin of ~29% on account of a robust demand from the tyre industry, supported by a sharp increase in natural rubber prices that increased the SBR prices. Over the years, the operating profitability has remained strong due to healthy realisations, backed by formula-based pricing arrangement for butadiene procurement, lending stability to the sourcing costs.

The company's capital structure remains comfortable with gearing of 0.3x and TD/OPBDITA of 0.9x in FY2024. The debt coverage metrics remain healthy with interest coverage ratio at 10.4x and DSCR of 6.7x in FY2024. The leverage and coverage metrics are projected to remain comfortable, going forward, supported by healthy profitability.

Credit challenges

High dependence on tyre manufacturers with margins remaining exposed to end user demand scenario - ISRPL's revenue is significantly tied to the tyre manufacturing sector, with the top five customers in this segment contributing ~77% to the total revenue in FY2024. These customers are reputed industry leaders, which mitigates the associated risks. The tyre industry's demand is linked to the broader automotive market, and replacement demand. Further, ISRPL's margin remain exposed to the fluctuations in E-SBR demand from tyre manufacturers and the availability of substitute products.

Vulnerability of profitability to volatility in raw material prices and foreign exchange fluctuations- ISRPL's two major raw materials - butadiene and styrene - form ~80% of the total raw material costs. These products are derivatives of crude oil and, hence, have a strong correlation to the crude oil price movements, apart from the currency rates and their own supply-demand dynamics. The margins remain susceptible to the volatility in spread between E-SBR and feedstock. Butadiene is sourced from IOCL under a formula-linked pricing arrangement with the ISRPL plant located within IOCL's premises. Styrene is imported from manufacturers in West Asia and Southeast Asia, with its pricing determined by the international market rates for benzene. The company relies on annual contracts with international suppliers, which further ties its costs to the global price trends.

Additionally, ISRPL is exposed to risks stemming from forex fluctuations pertaining to interest and debt repayments for the dollar-denominated external commercial borrowing (ECB) loan of ~Rs. 193.6 crore as on September 30, 2024, which remain unhedged.

Liquidity position: Strong

The company's liquidity position is strong on the back of healthy cash flow from operations, sizeable free cash balances/liquid investments of ~Rs. 424 crore and undrawn fund-based limits of ~Rs. 250 crore as on September 30, 2024. In relation to these sources of cash, ISRPL has debt repayment obligations of ~Rs. 96.77 crore each in FY2025 and FY2026. Further, ISPRL has sizeable capex plans towards expansion over the next three years, which would be funded from the existing sources of cash and additional debt. Going forward, the liquidity position is expected to remain strong despite the sizeable capex, driven by a healthy cash generation.

Rating sensitivities

Positive factors – ICRA could upgrade ISRPL's ratings if the company demonstrates a healthy and consistent growth in its scale while maintaining the profitability, debt coverage metrics and liquidity position.

Negative factors – The ratings can be revised downwards if there is a significant decline in the operating income and profitability. A large debt-funded capital expenditure adversely affecting the company's financial metrics may also result in a downgrade. A specific credit metric for downgrade includes a total debt/OPBDITA of more than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemicals
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Indian Synthetic Rubber Private Limited (ISRPL), incorporated in 2010, is a 50:50 joint venture of Indian Oil Corporation Ltd. (IOCL) and Trimurti Holding Corporation, a 100% subsidiary of Taiwan-based TSRC Corporation. The collaboration combines IOCL's expertise in the hydrocarbon sector and TSRC's decades of experience in the synthetic rubber industry across the Asia-Pacific region.

ISRPL set up India's first E-SBR (emulsion-styrene butadiene rubber) production facility at Panipat, Haryana. The plant is located within IOCL's premises with a capacity of 120,000 tonnes per annum (TPA). The plant commenced commercial operations in February 2014.

Key financial indicators

	FY2023	FY2024	H1FY2025 (Prov)
Operating income	1609.6	1582.1	988.7
PAT	133.0	198.4	201.0
OPBDIT/OI (%)	16.2%	20.6%	29.0%
PAT/OI (%)	8.3%	12.5%	20.3%
Total outside liabilities/Tangible net worth (times)	1.0	0.6	0.5
Total debt/OPBDIT (times)	1.3	0.9	0.3
Interest coverage (times)	8.9	10.4	24.5

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not Available

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount rated (Rs. crore)**	**January 29, 2025**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Long term - Cash credit – Fund-based	Long term	250.00	[ICRA]AA- (Stable)	-	-	-	-	-	-
Short term – Others – Non-fund based	Short term	100.00	[ICRA]A1+	-	-	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity indicator
Long term - Cash credit - Fund based	Simple
Short term – Others – 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	**Long term - Cash credit – Fund-based**	NA	NA	NA	250.00	[ICRA]AA- (Stable)
NA	**Short term – Others – Non-fund based**	NA	NA	NA	100.00	[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.

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.

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