August 08, 2022

Amines and Plasticizers Limited: Ratings reaffirmed

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	14.00	[ICRA]A- (Stable); reaffirmed
Long-Term - Fund Based – Working Capital Facilities	67.00	67.00	[ICRA]A- (Stable); reaffirmed
Long Term – Interchangeable	(35.00)	(35.00)	[ICRA]A- (Stable); reaffirmed
Short-Term - Non-fund Based – Working Capital Facilities	29.00	29.00	[ICRA] A2+; reaffirmed
Total	**110.00**	**110.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation of Amines and Plasticizers Limited (APL, the company) considers APL's long operating track record and the technical expertise of the promoters in the chemical manufacturing segment along with a healthy financial risk profile, marked by comfortable capital structure and debt coverage indicators. The ratings also 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 seen in FY2022 when the profit margin witnessed some moderation even as the revenue grew. 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). Further, the ratings also take into consideration the vulnerability of profitability to foreign exchange fluctuations as exports contribute to around 40-50% of the total revenues. However, the imports provide a natural hedge to the company to some extent.

The Stable outlook takes into account the company's established position in the ethalomine and morpholine segments, which coupled with its healthy 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 in the business - 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 the 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 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 about 40-50% of its overall revenues from exports, mainly to Iran, Turkmenistan, Taiwan and Turkey.

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 led to low debt levels. As on March 31, 2022, the gearing remained at 0.4 times, interest coverage was 4.6 times and total debt/OPBDITA at 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 debt-funded capex in the near term.

Credit challenges

Vulnerability of company's profitability to fluctuations in the 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 of fixed-price long-term contracts as well as spot contracts and has ability to partially pass on volatility in input costs in some contracts. In FY2022, while the company witnessed a healthy revenue growth of 27%, driven by a 19% growth in volumes (ethanolamines) and a sharp growth in realisation, its operating profit margin moderated from 12.0% in FY2021 to 7.1% in FY2022 due to a sharp increase in the prices of raw materials and natural gas.

High supplier concentration risk – APL depends on a sole supplier for the sourcing of a major raw material, ethylene oxide (EO), which accounts for about 33% of the raw material cost. This exposes the company to high supplier concentration risk, wherein the sole supplier dictates the pricing terms and conditions of the raw materials and limits the upward movement of the company's profitability to an extent.

Exposed to foreign currency fluctuation risk – Exports account for around 40% of the total revenues in FY2022, 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 the forex rate movements for the unhedged portion.

Liquidity position: Strong

APL's liquidity is strong, marked by healthy cash accruals and moderate working capital utilisation and debt repayments. The company has a sanctioned fund-based limit of Rs 67 crore, while the average working capital utilisation for its fund-based limits was 73% for the 12-month period ended March 2022. The company has moderate debt repayments of Rs 2.88 crore in FY2023 and Rs. 3.14 crore in FY2024, while the net cash accruals are expected to remain more than sufficient to meet the debt obligations. The company has a modest capex of Rs 2-4 crore annually in the next two years which would be met through internal accruals.

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 that could lead to a rating downgrade is the 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	Standalone

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 Standalone	FY2021	FY2022
Operating income	441.9	562.9
PAT	32.7	23.7
OPBDIT/OI	12.0%	7.1%
PAT/OI	7.4%	4.2%
Total outside liabilities/Tangible net worth (times)	1.16	0.91
Total debt/OPBDIT (times)	1.39	1.80
Interest coverage (times)	5.51	4.56

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 (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Aug 08, 2022	Jul 14, 2021	Apr 06, 2020	-
1	**Term loans**	Long term	14.0	5.6	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**	-
2	**Cash Credit**	Long Term	67.0		**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**	-
3	**Interchangeable* (EPC/ PCFC / EBN / EBD**	Long Term	(35.0)		**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**	-
4	**Letter of Credit & Bank Guarantee**	Short Term	29.0		**[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 – 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: www.icra.in

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	9.95%	Sep-2024	14.0	[ICRA]A- (Stable)
NA	Cash Credit	-	-	-	67.0	[ICRA]A- (Stable)
NA	Interchangeable Limits	-	-	-	(35.0)	[ICRA]A- (Stable)
NA	Letter of Credit & Bank Guarantee	-	-	-	29.0	[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: 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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