August 04, 2023

The Andhra Petrochemicals Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Working capital facilities	35.00	35.00	[ICRA]A- (Stable); reaffirmed
Short-term – Non-fund based working capital facilities	2.00	2.00	[ICRA]A2+; reaffirmed
Long-term, unallocated limits	57.18	57.18	[ICRA]A- (Stable); reaffirmed
Total	**94.18**	**94.18**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings factor in The Andhra Petrochemicals Limited's (APL) established track record in manufacturing oxo-alcohols in India and its financial risk profile characterised by healthy capital structure and comfortable coverage metrics. The company's long-term debt is nil, and its working capital utilisation is low. The liquidity profile has remained strong with healthy unencumbered cash & cash equivalents of ~Rs. 321.5 crore as on March 31, 2023. ICRA also notes that the company benefits from the trade protection measures, such as the anti-dumping duty (ADD) imposed on several countries for the import of NBA and 2EH, and the duopoly in the domestic oxo-alcohol market with Bharat Petroleum Corporation Limited (BPCL) being the other player that started its commercial operation in April 2021. ICRA also takes note of APL being a part of The Andhra Sugars Group and the track record of support received from the parent in the past during times of distress.

The ratings are constrained by the exposure of APL's profitability to the fluctuation in the spread between oxo-alcohols and feedstock. The operating margins sharply declined in FY2023 owing to the reduction in the spreads after product prices dropped because of subdued global demand. Moreover, APL is exposed to force majeure risk because of its dependence on a single supplier (HPCL) for the key raw material, propylene. However, ICRA notes that in the last three years, the company procured the raw material from BPCL-Kochi and Gas Authority of India Limited (GAIL)-Pata, though at a higher cost, which provides some diversification.

ICRA also notes the company's sizeable proposed capex plans to set up facilities for the production of value-added products in the medium term. The capex would be funded with existing cash balances and internal accruals. The proposed capex will expose the company to project execution risks over the medium term.

The Stable outlook on the long term rating reflects ICRA's opinion that APL will continue to benefit from the domestic demand for the product, which significantly exceeds supply and reduces the offtake risk despite the growing competition.

Key rating drivers and their description

Credit strengths

Duopoly in oxo-alcohols market in India; favourable long-term demand outlook for various end-user sectors - APL was the sole producer of oxo-alcohols in India till March 2021. The domestic capacity for oxo-alcohols increased with BPCL setting up a manufacturing facility that became operational in April 2021. However, given the high domestic demand with a part of the incremental production used for other downstream use, the impact on APL is expected to be limited. Any additional domestic capacity addition will increase the competition. APL's products are mainly used by the domestic manufacturers of di-octyle phthalate (DOP), which is used as a plasticiser to manufacture polyvinyl chloride (PVC). The long-term demand potential for PVC in India remains favourable.

Healthy capital structure and coverage indicators –The capital structure remains healthy with no long-term debt as on March 31, 2023 and low working capital debt utilisation levels in FY2023. The gearing is comfortable at 0.2 times as on March 31, 2023. The coverage indicators remained comfortable with interest coverage of 4.0 times for FY2023, though they moderated from FY2022 levels because of nil term debt and low working capital utilisation.

Promoted by ASL; around six decades of operating history of Group – APL is a part of The Andhra Sugars Group. The flagship entity, The Andhra Sugars Limited (ASL; rated [ICRA]A+(Stable)/[ICRA]A1+), has around six decades of operating history and a strong credit profile.

Credit challenges

Margins susceptible to volatility in spread between oxo-alcohols and feedstock – APL is a standalone manufacturer without backward-integration benefits and its margins are susceptible to the volatility in global prices (spread between product and feedstock prices), intense competition from imports, changes in duty structure/trade protection measures such as ADD, the import pattern of the end-user segments and substitute products. The operating margins were impacted and sharply declined to 5.2% in FY2023 from 32.1% in FY2022 as the spreads reduced with the fall in product prices because of subdued global demand. The spread declined to Rs. 26,356/MT in FY2023 from Rs. 58,518/MT in FY2022. However, ICRA notes that the cost-control measures adopted in the last few years, imposition of ADD on imports and other favourable regulatory measures will mitigate the impact of volatility in the spread to some extent.

Vulnerable to force majeure risk with high dependence on single feedstock supplier – APL is dependent on a single source, HPCL, for the supply of its key feedstock, propylene. The company's operations were impacted in the past due to disruption in feedstock supplies, leading to lower capacity utilisation. The company has been able to achieve some supplier diversification in the last three years by procuring some propylene from BPCL's refinery at Kochi and GAIL-Pata. Although the cost of procurement from BPCL and GAIL is higher due to the freight cost, it will partly mitigate the supplier concentration risk.

Sizeable proposed capex plans and associated project execution risks – The company has sizeable proposed capex plans of ~Rs. 500 crore for setting up facilities to produce value-added products in the medium term. The capex would be funded with existing cash balances and internal accruals. The proposed capex will expose the company to project execution risks.

Environmental and Social Risks

Given the safety and environmental health-related concerns associated with chemicals, the industry is exposed to the risk of tightening regulatory norms for the production, handling, disposal, and transportation of chemical products. Further, in the event of accidents, the litigation risks and the liabilities for clean-up could be high. While APL has a demonstrated track record of running its operations safely, the nature of the risk (being low frequency-high impact) weighs on its rating.

Further, operating responsibly is an imperative and instances of non-compliance with environmental, health and safety norms could have an adverse impact on the local community which could manifest in the form of protests, constraining the ability to operate or expand the capacity. APL hasn't experienced/reported any incident suggestive of safety lapses in its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be a monitorable.

Liquidity position: Strong

The company's liquidity profile has been strong, supported by healthy unencumbered cash and cash equivalents of Rs. 321.5 crore as on March 31, 2023, undrawn working capital limits and expected positive cash flows from operations in FY2024. The company's liquidity position is expected to remain strong due to the expected healthy cash accruals and nil debt repayments. ICRA notes that the planned capex in the medium term will reduce the available liquidity to an extent.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company exhibits sustained healthy revenues and profitability, while maintaining healthy capital structure, coverage indicators and working capital intensity.

Negative factors – Pressure on the ratings could arise if there is a sustained decline in revenue and profitability. Any major debt-funded capital expenditure, or a stretch in the working capital cycle weakening the liquidity will also impact the ratings. The ratings may also be downgraded if the net debt/OPBDITA is more than 2.2 times on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Chemicals
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financials of the company

About the company

The Andhra Petrochemicals Limited (APL), promoted by ASL, was incorporated on April 18, 1984. At present, APL and BPCL are the two producers of oxo-alcohols in India. APL has a manufacturing capacity of 73,000 tonnes per annum (TPA). The product mix includes 2EH, NBA and isobutanol (IBA). Oxo-alcohol is primarily used as a raw material to manufacture PVC plasticisers. It commenced operations from February 1994. APL's factory is located adjacent to HPCL's Visakhapatnam refinery, with which it has entered into a long-term contract for the procurement of propylene, the key raw material in the manufacturing process.

Key financial indicators (audited)

APL Standalone	FY2022	FY2023
Operating income	965.4	683.0
PAT	226.7	20.4
OPBDIT/OI	32.1%	5.2%
PAT/OI	23.5%	3.0%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.3	2.5
Interest coverage (times)	36.0	4.1

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 of Feb 29, 2020 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2021	Date & rating in FY2020	
					Aug 04, 2023	June 22, 2022	Mar 23, 2021	Mar 16, 2020	June 03, 2019
1	Term Loan	Long term	0.00	0.00	-	-	[ICRA]A- (Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Positive)
2	Fund-based working capital facilities	Long term	35.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+ (Positive)
3	Non-fund based working capital facilities	Short term	2.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2
4	Unallocated limits	Long term	57.18	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+ (Positive)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Short-term – Non-fund-based working capital facilities – Letter of credit/Bank guarantee	Very Simple
Unallocated limits	NA

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	**Cash credit**	NA	NA	NA	35.00	[ICRA]A-(Stable)
NA	**Letter of credit/Bank guarantee**	NA	NA	NA	2.00	[ICRA]A2+
NA	**Unallocated limits**	NA	NA	NA	57.18	[ICRA]A-(Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis: NA

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