

September 12, 2024

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. 350.15 crore as on March 31, 2024, along with liquid investments of Rs. 64.46 crore. 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. ICRA also takes note of APL being a part of The Andhra Sugars Group.

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 declined sharply in FY2023 owing to the reduction in the spreads after product prices dropped because of subdued global demand, though there is recovery in margins since Q2FY2024 resulting in improved margins in FY2024. However, the margins remain exposed to continued weak global demand scenario. 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, in times of requirement and healthy margins, the company has been procuring 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 that the company's earlier planned sizeable proposed capex plans to set up facilities for the production of value-added products are on hold until there is a sustained improvement in the global scenario. The company has moderate capex plans in the near term towards value-added product, to be funded by internal accruals.

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. 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

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) compounding. The long-term demand potential for PVC compounding in India remains favourable.

Healthy capital structure and coverage indicators – The capital structure remains healthy with no long-term debt as on March 31, 2024 and low working capital debt utilisation levels in FY2024 and Q1 FY2025. The gearing is comfortable at 0.2 times as on March 31, 2024. The coverage indicators remained comfortable with interest coverage of 9.8 times as on March 31, 2024 and 8.9 times as on June 30, 2024.

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. Since Q2 FY2024, the margins have improved, pushing up the operating margin to 10.7% for FY2024. The spread was at Rs. 27,657/MT in FY2024, up from Rs. 26,356/MT in FY2023. ICRA also notes the cost control measures adopted in the last few years, the imposition of ADD on imports and other favourable regulatory measures, which will mitigate the impact of volatility in the spread to some extent.

Vulnerable to force majeure risk with high dependence on a single feedstock supplier – APL is dependent on a single source, HPCL, for the supply of its key feedstock, propylene. The company's operations are periodically impacted 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 naphtha from 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.

Environmental and Social Risks

Given the safety and environmental 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 ratings.

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 at its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be a monitorable. The company follows strong safety practices in the plant and has received various awards from the National Safety Council towards the same.

Liquidity position: Strong

The company's liquidity profile has been strong, supported by healthy unencumbered cash and cash equivalents of Rs. 350.15 crore along with liquid investments of Rs. 64.46 crore, undrawn working capital limits of ~Rs. 33 crore as on March 31, 2024 and expected positive cash flow from operations in FY2025. The company's liquidity position is likely to remain strong due to the expected healthy cash accruals and nil debt repayments.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company exhibits sustained healthy revenues and profitability, while maintaining comfortable 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 total debt/OPBDITA is more than 2.5 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	FY2023	FY2024
Operating income	683.0	788.7
PAT	20.4	63.4
OPBDIT/OI	5.2%	10.7%
PAT/OI	3.0%	8.0%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	2.5	1.0
Interest coverage (times)	4.1	9.8

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 (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based – Working capital facilities	Long Term	35.00	Sep 12, 2024	[ICRA]A-(Stable)	Aug 04, 2023	[ICRA]A-(Stable)	Jun 22, 2022	[ICRA]A-(Stable)	-	-
Non-fund based – Working capital facilities	Short Term	2.00	Sep 12, 2024	[ICRA]A2+	Aug 04, 2023	[ICRA]A2+	Jun 22, 2022	[ICRA]A2+	-	-
Unallocated limits	Long Term	57.18	Sep 12, 2024	[ICRA]A-(Stable)	Aug 04, 2023	[ICRA]A-(Stable)	Jun 22, 2022	[ICRA]A-(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund based – working capital facilities	Simple
Short Term – Non-fund based – working capital facilities	Very Simple
Long Term – Unallocated limits	Not Applicable

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 – Not Applicable

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