March 23, 2021

The Andhra Petrochemicals Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loans	13.50	13.50	[ICRA]A-(Stable); Upgraded from [ICRA]BBB+(Stable)
Fund-based - Cash Credit	35.00	35.00	[ICRA]A-(Stable); Upgraded from [ICRA]BBB+(Stable)
Long-term Unallocated	43.68	43.68	[ICRA]A-(Stable); Upgraded from [ICRA]BBB+(Stable)
Non-fund Based	2.00	2.00	[ICRA]A2+; Upgraded from [ICRA]A2
Total	**94.18**	**94.18**	

**Instrument details are provided in Annexure-1 t*

Rationale

The rating upgrade of The Andhra Petrochemicals Limited (APL) considers the improvement in its cost structure due to various cost-control measures undertaken in the recent fiscals. ICRA notes that these initiatives have partly mitigated the susceptibility of the company's performance to volatility in spreads between oxo-alcohols and feedstock, import duty differentials and foreign exchange rates. During 9M FY2021, APL has witnessed healthy performance driven by demand recovery since Q2 FY2021 and substantial improvement in product–raw material spreads in Q3 FY2021, after witnessing subdued performance in Q4 FY2020 and Q1 FY2021, due to the adverse impact of Covid-19. The rating upgrade also considers the healthy improvement in APL's leverage and coverage indicators due to repayment of long-term debt and low working capital debt utilisation levels as well as the significant improvement in the liquidity profile with healthy unencumbered cash balance of ~Rs. 57.0 crore as of December 31, 2020. ICRA also notes that the company benefits from trade protection metrics in the form of anti-dumping duty (ADD) imposed on several countries for the import of n-butanol (NBA) and 2-ethyl Hexanol (2EH). In recent sunset review by authorities, the ADD on 2EH has been recommended to be extended by another five years, while the duties on NBA is under review.

The ratings continue to favourably consider APL's sole producer status in the Indian oxo-alcohol market, with it catering to 35–40% of the domestic demand (at normalised production level). ICRA notes the expected increase in the domestic capacity with Bharat Petroleum Corporation Limited (BPCL) setting up a manufacturing facility for oxo-alcohols. However, given the high domestic demand with a part of incremental production to be used for other downstream use, the impact on APL is expected to be limited. Any additional domestic capacity addition may result in increased competition. The rating continues to take comfort from APL being a part of The Andhra Sugars Group and the track record of support received from the parent during times of distress.

ICRA, however, notes that dependence on a single supplier (HPCL) for the key raw material, propylene, exposes the company to force majeure risk[1], although ICRA notes that in FY2021 there was some procurement from BPCL – Kochi, albeit at a higher cost, which provides some diversification benefits. Further, any incremental sizeable debt-funded capex may put pressure on its capital structure and coverage indicators and hence, remains a rating sensitivity. ICRA also notes the dispute with Vizag Port Trust with regards to the renewal of land lease and the lease rate applicable. The development on this front will be monitored.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that APL will continue to benefit from the domestic demand for the product significantly exceeding the supply, which will reduce the offtake risk and limit the impact of new domestic

[1] Events like fire accident or major natural calamity, resulting in extended feedstock supply disruption from HPCL

manufacturing units. While the product–feedstock price spread is expected to remain volatile, the company is likely to benefit from the various cost-reduction measures undertaken and favourable regulatory measures. Its capital structure and coverage indicators are expected to remain healthy.

Key rating drivers and their description

Credit strengths

Sole producer of oxo-alcohols in India; favourable long-term demand outlook for various end-user sectors – APL, the sole producer of oxo-alcohols in India, has been operational for more than three decades. The company caters to ~35–40% of the domestic demand when operating at full capacity, while the remaining is met through imports. Its products are mainly used by the domestic manufacturers of Di-Octyle Phthalate (DOP), which is used as plasticiser in manufacturing polyvinyl chloride (PVC). The long-term demand potential for PVC in India remains favourable. The market entry of BPCL is expected to have limited impact, given the high domestic demand with a part of the production being used for other downstream use.

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.

Healthy capital structure and coverage indicators – APL's financial profile remains healthy with modest gearing and robust coverage indicators on the back of modest debt levels. The capital structure and coverage indicators are expected to remain healthy with the term loans being already repaid, minimal utilisation of fund-based working capital limits and no major debt-funded capex plan in the near term.

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 volatility in global prices (spread between product and feedstock prices), intense competition from imports, changes in duty structure/trade protection measures such as ADD, import pattern of end-user segments and substitute products. However, ICRA notes that cost control measures adopted in last few years, imposition of ADD on imports and other favourable regulatory measures have mitigate the impact 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 severely impacted in FY2014 and FY2015 due to feedstock supply disruption. However, the supply has been primarily regular since FY2016, except a minor disruption in FY2020. Hence, while the company remains exposed to force majeure risk due to supplier concentration, the disruption risk is low during routine maintenance shutdown by HPCL due to increase in propylene production and ability to store buffer stock by APL. Further, the company has also been able to achieve some supplier diversification in FY2021 with procurement of some propylene from BPCL refinery at Kochi, although the cost of such procurement is higher due to the freight cost. This will further partly mitigate the supplier concentration risk faced by the company.

Liquidity position: Strong

The company's liquidity profile witnessed sustained improvement over the last few years, aided by improvement in revenues and profitability and the consequent reduction in debt levels due to scheduled repayments and some prepayments. While there was moderation in financial performance in FY2020, the performance during 9M FY2021 has witnessed healthy improvement, despite the impact of Covid-19 pandemic and containment measures in Q1 FY2021. With the term loans already repaid in the current fiscal, the company has no long-term repayment obligations and has only moderate capex plans in the near term. These coupled with healthy cash accruals, healthy unencumbered cash and liquid investments of ~Rs. 57 crore (as of December 2020) and unutilised working capital limits have resulted in a healthy liquidity profile. ICRA also notes the financial flexibility enjoyed by the company with lenders as a part of The Andhra Sugars Group.

Rating sensitivities

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

Negative factors – Negative pressure on the rating could arise if there is sustained decline in revenues and profitability; or if any major debt-funded capital expenditure, or a stretch in the working capital cycle, weakens liquidity. The ratings may also be downgraded if the RoCE is lower than 15% 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	The ratings are based on the standalone financial statements of the firm.

About the company

The Andhra Petrochemicals Limited (APL), promoted by ASL, was incorporated on April 18, 1984. At present, it is the sole producer of oxo-alcohols in India, with a manufacturing capacity of 73,000 tonne per annum (TPA). The product mix includes 2EH, NBA and isobutanol (IBA). At present, APL's oxo-alcohol manufacturing capacity caters to ~35–40% of the Indian market, while the remaining comes from imports. 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)

	FY2019	FY2020	9M FY2021
Operating Income (Rs. crore)	665.9	455.9	347.7
PAT (Rs. crore)	69.8	13.6	29.5
OPBDIT/OI (%)	16.3%	7.3%	17.2%
RoCE (%)	42.7%	9.4%	27.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.2	0.2
Total Debt/OPBDIT (times)	0.1	0.2	0.1
Interest Coverage (times)	18.4	22.0	85.0
DSCR (times)	1.8	3.0	2.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years					
		Type	Amount Rated^	Amount Outstanding	Date & Rating in	FY2020		FY2019	FY2018		
					Mar 23, 2021	Mar 16, 2020	Jun 03, 2019	Sep 07, 2018	Dec 29, 2017	Sep 01, 2017	Jul 11, 2017
1	Term Loans	Long Term	13.50	1.81	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB- (Stable)	[ICRA]BB (Positive)	[ICRA]BB- (Stable)
2	Fund-based - Cash Credit	Long Term	35.00		[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB- (Stable)	[ICRA]BB (Positive)	[ICRA]BB- (Stable)
3	Unallocated	Long Term	43.68		[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB (Positive)	[ICRA]BBB- (Stable)	[ICRA]BB (Positive)	[ICRA]BB- (Stable)
4	Non-fund Based - LC/BG	Short Term	2.00		[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3	[ICRA]A4+	[ICRA] A4

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Consortium Working Capital Term Loans	FY2015^	-	January 2021	13.50	[ICRA]A-(Stable)
NA	Long-term Unallocated				43.68	[ICRA]A-(Stable)
NA	Cash Credit				35.00	[ICRA]A-(Stable)
NA	Non-fund Based				2.00	[ICRA]A2+

Source: *Company*

Annexure-2: 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.

For more information, visit www.icra.in

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