July 14, 2021 Revised

Amines and Plasticizers Limited: Ratings upgraded to [ICRA]A- (Stable)/ [ICRA]A2+ from [ICRA]BBB+ (Stable)/ [ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term - Fund Based – Term Loan	14.0	14.0	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Long-Term - Fund Based – Working Capital Facilities	67.0	67.0	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Long Term – Interchangeable	(35.0)	(35.0)	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Short-Term - Non-fund Based – Working Capital Facilities	29.0	29.0	[ICRA]A2+; upgraded from [ICRA]A2
Total	**110.0**	**110.0**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in the ratings factors in Amines and Plasticizers Limited's (APL) revenue growth of 11% to Rs 441.9 crore in FY2021 from 399.1 crore in FY2020 driven by healthy demand for its products, while operating margins also improved to 12.1% in FY2021, compared to 10.5% in FY2020, aided by revenue growth and favorable changes in product mix. Further, the company's financial risk profile, in terms of RoCE, capital structure and coverage indicators, has remained robust over the years. The ratings continue to take into account APL's long operating track record and the technical expertise of the promoters in the chemical manufacturing segment. The company enjoys a strong position and limited competition in the domestic market, given its presence in the niche category of manufacturing chemical products like methyl diethanolamine (MDEA), which is used in petrochemical and oil refineries as a gas sweetening solvent, Ethyl Mono Ethanolamine (EMEA) which is used in pharmaceutical industry and N-methyl morpholine oxide (NMMO), which finds its application as a solvent in the viscose fibre industry. Technology-related entry barriers as well as locational advantage support APL's dominant market position.

APL's profitability, however, remains vulnerable to fluctuations in crude oil price movement as the raw materials are crude oil derivatives. The supplier concentration risk also remains high for the company as it remains dependent on a sole supplier for the sourcing of a major raw material i.e. ethylene oxide (EO), which accounts for about 60% of the raw material cost. Further, the ratings also take into consideration, the vulnerability of profitability to foreign exchange fluctuations as exports contribute to 53% 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 chemicals segment and the stable demand outlook for the sector in the long term.

Key rating drivers and their description

Credit strengths

Long operating track record and technical expertise of the 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. 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 wide application in oil refineries, natural gas plants, ammonia plants, petrochemical plants, pharmaceuticals and agrochemical industries.

Healthy market position of the company in the ethanolamines and morpholine derivatives segments – APL's main products include MDEA, which is used in the petrochemical industry and at oil refineries, EMEA which is used in pharmaceutical industry and NMMO, which is used as a solvent in the viscose fibre industry. These products contribute around 65% to the company's total revenue. APL has a healthy share in these product segments in the domestic as well as overseas markets due to the high technological barriers in the industry as well as the locational advantage. It currently generates about 53% of its overall revenues from exports mainly to USA, Turkmenistan, South Korea, and China.

Healthy financial risk profile, driven by robust RoCE, adequate capital structure and coverage indicators – The company's financial risk profile, in terms of the RoCE, capital structure and coverage indicators, has remained healthy over the years. This has been driven by adequate profitability, given APL's presence in the manufacturing of niche category products, and the limited long-term debt, which has led to low debt levels. As on March 31, 2021, the gearing remained at 0.5 times, interest coverage at 5.5 times and total debt/OPBDITA at 1.4 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 medium term.

Credit challenges

Vulnerability of company's profitability to fluctuations in the raw material prices which are linked to crude oil price movement – The company's profitability remains susceptible to crude oil price movements as the major raw material, EO, is a crude oil derivative. Further, some of the work orders are fixed price contracts, thus limiting the ability to pass on the price movements. Thus, any upward or downward movement in crude oil prices impacts APL's operating profitability. The same can be witnessed from the fluctuating operating margins (OPMs) over the last three fiscals due to the volatility in crude oil prices. However, the impact is offset to an extent by the company's ability to pass on such fluctuations, with a lag effect, for a large part of the orders.

High supplier concentration risk – APL depends on a sole supplier for the sourcing of a major raw material, EO, which accounts for about 40% 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 – Since exports contribute to 53% of the total revenues in FY2021, the profitability remains 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 with robust cash flow from operations and healthy free cash balance of Rs 45.84 crore on its books as on March 31, 2021. The company has a sanctioned fund-based limits of Rs 67 crore while the average working capital utilization for its fund-based limits stood at 65% for the 15-month period ended March 2021. The company has moderate debt repayments of Rs 2.96 crore per annum in FY2022 and FY2023, and Rs 3.04 crore in FY2024, while net cash accruals are expected to remain more than sufficient to meet the debt obligations. The company has modest capex of Rs 5-10 crore annually in the next 3 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 healthy liquidity profile.

Negative factors – Any deterioration in scale of operations, profitability margins or any stretch in the working capital cycle weakening the overall liquidity profile would have a negative impact on the ratings. Specific credit metrics that could lead to a rating downgrade include TOL/TNW above 1.50 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
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 wide applications across various industries.

As per FY2021 provisionals, the company reported a net profit of Rs. 32.7 crore on an operating income (OI) of Rs. 441.9 crore compared to a net profit of Rs. 24.7 crore on an OI of Rs. 399.1 crore in the previous year.

Key financial indicators (audited)

ICTIPL Consolidated	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	455.1	399.1	441.9
PAT (Rs. crore)	16.4	24.7	32.7
OPBDIT/OI (%)	7.4%	10.5%	12.0%
RoCE (%)	25.5%	25.4%	28.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	1.1	1.2
Total Debt/OPBDIT (times)	2.3	1.4	1.4
Interest Coverage (times)	4.2	4.5	5.5
DSCR (times)	3.4	2.9	3.7

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)

Source: Company, ICRA research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					14-Jul-21	6-Apr-2020	-	20-Mar-2019
1	Term Loan	Long Term	14.0	8.4	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Positive)
2	Cash Credit	Long Term	67.0	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Positive)
3	Interchangeable* (EPC/ PCFC / EBN / EBD	Long Term	(35.0)	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Positive)
4	Letter of Credit & Bank Guarantee	Short Term	29.0	-	[ICRA]A2+	[ICRA]A2	-	[ICRA]A2

Complexity level of the rated instrument

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	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	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*

Annexure-2: List of entities considered for consolidated analysis: Not applicable

Corrigendum

- Revision in the last sentence of the 2nd point under credit strengths on Page 2

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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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