June 22, 2022

# The Andhra Petrochemicals Limited: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Fund-based Term loan | 13.50 | 0.00 | - |
| Fund-based- Working capital facilities | 35.00 | 35.00 | [ICRA]A- (Stable); reaffirmed |
| Non-fund based-Working capital facilities | 2.00 | 2.00 | [ICRA]A2+; reaffirmed |
| Long-term, Unallocated | 43.68 | 57.18 | [ICRA]A- (Stable); reaffirmed |
| **Total** | **94.18** | **94.18** | |

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

## Rationale

The reaffirmation of the ratings factor in The Andhra Petrochemicals Limited's (APL's) comfortable financial risk profile with improved revenues and margins. The operating income improved to Rs. 965.4 crore in FY2022 from Rs. 566.1 crore in FY2021, driven by sharp increase in realisation of 2-ethyl Hexanol (2EH), n-butanol (NBA) and I-Butanol (IBA). The operating margin increased to 32.0% in FY2022 from 24.2% in FY2021 due to higher realisation despite the increase in raw material prices. The company's capital structure remains comfortable, given the nil long-term debt and low working capital debt utilisation levels. Moreover, the liquidity profile has significantly improved with healthy unencumbered cash balance of ~Rs. 317.5 crore as on March 31, 2022.

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 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. The ratings continue 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.

The ratings, however, are constrained by the exposure of APL's profitability to the fluctuation in the spread between oxo-alcohols and feedstock, as seen in the past. Moreover, APL is exposed to force majeure risk[1] because of its dependence on a single supplier (HPCL) for the key raw material, propylene. However, ICRA notes that in FY2021 and FY2022, there was some procurement from BPCL-Kochi and Gas Authority of India Limited (GAIL)-Pata, albeit at a higher cost, which provides some diversification. ICRA also notes the sizeable proposed capex plans of ~Rs. 400 crore for setting up facilities for the production of value-added products in the next two-three years. 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 [ICRA]A- 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.

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

## 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 which became operational in April 2021. However, given the high domestic demand with a part of incremental production used for other downstream use, the impact on APL is expected to be limited. Any additional domestic capacity addition 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.

**Comfortable financial risk profile with healthy capital structure and coverage indicators –** The operating income increased to Rs. 965.4 crore in FY2022 from Rs. 566.1 crore in FY2021 owing to increased realisation. The operating margin increased to 32.0% in FY2022 from 24.2% in FY2021 due to higher realisation despite the increase in raw material prices. The tolling margin increased to Rs. 58,518/MT in FY2022 from Rs. 29,215/MT in FY2021 and Rs. 18,235/MT in FY2020. The capital structure remains healthy with no long-term debt and low working capital debt utilisation levels as on March 31, 2022. The gearing remains comfortable at 0.3 times as on March 31, 2022. The coverage indicators remain robust at 35.9 times in FY2022 on the back of modest debt levels.

**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 end-user segments and substitute products. The spread increased to Rs. 58,518/MT in FY2022 from Rs. 29,215/MT in FY2021, benefiting the company's profitability in FY2022. However, the spread reduced to Rs. 35,525/MT in Q4 FY2022 from Rs. 71,473/MT in Q1 FY2022 and Rs. 87,300/MT in Q2FY2022. The expected decline in spread would impact the company's profitability in FY2023. 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 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 severely impacted in FY2014 and FY2015 due to the disruption in feedstock supplies. However, the supply has been regular since FY2016, except a minor disruption in FY2020. Hence, while the company remains exposed to force majeure risk due to supplier concentration, the risk is low during routine maintenance shutdown by HPCL due to increased propylene production and APL's ability to store buffer stock. Further, the company has been able to achieve some supplier diversification in FY2021 and FY2022 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 faced by the company.

**Sizeable proposed capex plans and associated project execution risks –** The company has sizeable proposed capex plans of ~Rs. 400 crore for setting up facilities to produce value-added products in the next two-three years (FY2024-FY2026). The capex would be funded with existing cash balances and internal accruals. The proposed capex will expose the company to project execution risks.

## Liquidity position: Strong

The company's liquidity profile witnessed sustained improvement over the last few years, aided by the improvement in revenues and profitability and the consequent reduction in debt levels due to the scheduled repayments and some prepayments. The company has unutilised working capital limits of Rs. 26.9 crore and healthy cash balance and liquid investments of Rs. 317.5 crore as on March 31, 2022. The company's liquidity position is expected to remain strong due to the expected healthy cash accruals and nil debt repayments. However, the planned capex of ~Rs. 100 in FY2024 and ~Rs. 200-300 crore in FY2025 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 a healthy capital structure, coverage indicators and working capital intensity.

**Negative factors -** Negative 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<br>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 company |

## 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 tonnes per annum (TPA). The product mix includes 2EH, NBA and isobutanol (IBA). At present, APL's oxo-alcohol manufacturing capacity caters to ~25% of the Indian market, while BPCL contributes to some of the domestic requirement, while a major demand is met through 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)

| APL | FY2021 | FY2022 |
|---|---|---|
| Operating income (Rs. crore) | 566.1 | 965.4 |
| PAT (Rs. crore) | 76.5 | 226.7 |
| OPBDIT/OI (%) | 24.2% | 32.0% |
| PAT/OI (%) | 13.5% | 23.5% |
| Total outside liabilities/tangible net worth (times) | 0.5 | 0.3 |
| Total debt/OPBDIT (times) | 0.6 | 0.3 |
| Interest coverage (times) | 15.0 | 35.9 |

*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 rating (FY2023) | | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding (Rs. crore) | Date & rating in | Date & rating in FY2021 | Date & rating in FY2020 | | Date & rating in FY2019 |
| | | | | | June 22, 2022 | Mar 23, 2021 | Mar 16, 2020 | Jun 03, 2019 | Sep 07, 2018 |
| **1** | Term Loan | Long Term | 0.00 | 0.00 | - | [ICRA]A- (Stable) | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Positive) | [ICRA]BBB (Positive) |
| **2** | Working Capital Facilities | Long Term | 35.00 | - | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Positive) | [ICRA]BBB (Positive) |
| **3** | Non-fund based | Short Term | 2.00 | - | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2 | [ICRA]A2 | [ICRA]A3+ |
| **4** | Unallocated | Long Term | 57.18 | - | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Positive) | [ICRA]BBB (Positive) |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Cash Credit | Simple |
| Letter of Credit/Bank Guarantee | Very Simple |
| Unallocated | 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: 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 | Working Capital Facilities | NA | NA | NA | 35.00 | [ICRA]A-(Stable) |
| NA | Non-fund based | NA | NA | NA | 2.00 | [ICRA]A2+ |
| NA | Unallocated | NA | NA | NA | 57.18 | [ICRA]A-(Stable) |

***Source:*** *Company*

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

**Annexure-2: List of entities considered for consolidated analysis: NA**

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