

March 24, 2023

Assam Petro-Chemicals Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	890.67	890.67	[ICRA]BB+; reaffirmed; outlook revised to Negative from Stable
Total	890.67	890.67	

*Instrument details are provided in Annexure-I

Rationale

The change in the outlook for the bank line ratings of Assam Petrochemicals Limited (APL) is driven by its weak profitability metrics amid elevated natural gas prices and liquidity pressures caused by high raw material costs and debt servicing requirements. APL's project was earlier scheduled to be commissioned by September 2021 but got delayed and has recently got commissioned in March 2023. The company expects some savings on a few of the project contracts which would reduce the funding requirement, although the same does not alleviate the risk of delay in debt tie-ups for project payments. Additionally, any delays in the project stabilisation and ramp up could have a negative impact on APL's credit profile.

The company has reported a loss of around Rs. 27 crore in H1 FY2023 on account of elevated gas prices and the loss has widened in Q3 FY2023 owing to further increase in gas prices. These losses are expected to reduce when the new project ramps up in FY2024 as it will be more cost efficient vis-à-vis the existing facility. Employee cost, however, continues to be a major headwind for the company as it was around 42% of the total revenue in FY2022, although the same is not expected to increase majorly, going forward. In FY2024, the operating profit is expected to witness an uptick, supported by additional volumes from new capacities.

The rating is also constrained by the modest scale of its existing operations and high employee cost which has had an adverse impact on the cost structure in the past. Additionally, the profitability of the company remains vulnerable to the volatility in international methanol and natural gas prices, import duty levels and foreign exchange fluctuations. The rating also factors in the modest financial risk profile of the entity owing to its low cash generation.

The rating continues to factor in the strength of APL's parentage, being promoted by the Government of Assam (GoA) and Oil India Limited (OIL). The rating also takes into account its long and established track record in the industrial chemical segment, its status as the sole manufacturer of methanol in eastern India as all the other players are located on the west coast of India and its access to lower priced domestic gas, resulting in low cost of manufacturing.

The rating favourably factors in the support from its promoters, particularly Oil India Limited (OIL) in the form of equity infusion to fund the ongoing capex which has increased OIL's ownership to ~49% from 25.3% earlier. The rating also factors in the raw material security for APL for its ongoing as well as upcoming methanol capacity, given its 15-year contract with OIL to supply natural gas (~0.5 mmscmd) at domestic gas price and the extended credit period on the gas supplied by OIL. APL's rating also favourably factors in the positive demand outlook for methanol consumption in India and high import dependence in the country with nearly 90% of the demand being met through imports.

Key rating drivers and their description

Credit strengths

Long and established track record in manufacturing methanol and formalin with strong promoter profile - APL is promoted by the Government of Assam (51%) and recently Oil India Limited (OIL) has infused equity in the company for the ongoing capex, raising its ownership to 48.68%. At present, OIL has granted an extended credit period to APL, aiding the latter's cash flow generation. The company has a long track record of over 30 years in manufacturing of methanol and downstream products like formaldehyde (formalin) with a strong presence in regions like the North East, West Bengal, Bihar and North India.

Sole manufacturer of methanol in eastern India; positive demand outlook for methanol consumption in India- APL is the sole manufacturer of methanol in eastern India and has access to the entire market of East and North-East India. Most of the methanol imports happen on the west coast of India and additional freight cost has to be incurred to bring in the imported methanol to the eastern markets. This makes APL's methanol competitive against imports. The demand outlook for methanol remains positive, growing at a healthy CAGR of 8% per annum over the last four years driven by the demand from the plywood industry, formalin resin etc.

Raw material security from 15-year gas offtake agreement with OIL India Limited along with availability of natural gas at domestic gas price - Natural gas is the primary input for the production of methanol, a part of which is converted to formalin. APL has a long-term agreement with OIL for the supply of 0.11 mmscmd NG for its old unit and 0.50 mmscmd NG for its proposed new capacity for a period of 15 years ending December 2028. The raw material supply risk is largely mitigated as OIL remains committed to the project's success as a co-promoter and has signed a supply agreement with APL for additional gas supply.

High import dependence for methanol and advantage for APL being sole manufacturer in eastern India - The demand for methanol remains high from downstream manufacturers of formalin and acetic acid. At present, the domestic demand for methanol is ~20 lakh tonnes per annum, though a majority of this demand is met through cheaper imports (~90%) on account of low international methanol prices, unavailability of technology and high prices of domestic feedstock. However, APL's proximity to OIL's exploration sites results in lower landed cost of NG compared to the landed price in the other regions.

Credit challenges

Delay in commissioning of methanol and formalin projects along with cost overruns; delay in fund tie-up for cost escalation portion - APL is in the midst of a large capex to set up a 500-TPD methanol project and a 200-TPD formalin project. The project has witnessed cost and time overruns and the financial closure for the cost overrun portion remains to be achieved. The total capital outlay for the project has increased to Rs. 1,709.2 crore from Rs. 1,337.0 crore due to increase in the scope of work and also implementation of the goods & services tax (GST) regime.

Modest scale of operations and weak cost structure, driven by high employee and power cost- The company's scale of operations remains moderate on account of a limited product profile and low production capacity. Moreover, a significantly high fixed cost, majorly comprising employee cost (~42% of the revenue in FY2022), continues to drain APL's profitability.

Vulnerability of profitability to natural gas prices, import duty levels, global methanol prices and foreign exchange fluctuations- APL's profitability is vulnerable to the cyclicity in the prices of industrial chemicals like methanol and fluctuations in natural gas prices. The reduction in import duty on imported methanol could impact the company's profitability. Moreover, because of the import parity pricing for domestic sales, APL's profit margins remain exposed to adverse fluctuations in INR-US dollar exchange rates.

Modest financial risk profile driven by weak profitability in the past and large debt availed for methanol and formalin projects - APL's financial risk profile remains moderate given its weak profitability as the employee cost is high for the company, while the methanol realisations remain volatile. While APL was debt-free before the commencement of the ongoing project,

the company has availed a significant amount of debt to fund the methanol and formalin projects. As a result, the financial risk profile of the company is expected to remain modest in the near to medium term.

Liquidity position: Stretched

The project had witnessed cost and time overruns, which recently got commissioned in March 2023; the debt repayments have also started. This, coupled with the pressure on profitability owing to elevated feedstock prices, is likely to keep the liquidity stretched.

Rating sensitivities

Positive factors – The Outlook can be revised to Stable if the operations stabilise and the earnings improve.

Negative factors – The rating will be under pressure in case of delays in project stabilisation and ramp up. Weakening of linkages between APL and its promoters or further pressure on profitability will also weigh on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	ICRA expects APL to benefit from the strong parentage of the Government of Assam (GoA) and Oil India Limited (OIL). ICRA also expects that OIL will provide significant operational synergy to APL in terms of regular supply of key raw materials for manufacturing methanol and extended credit period
Consolidation/Standalone	Standalone

About the company

Assam Petro-Chemicals Limited (APL), promoted by the Government of Assam (GoA) and the Assam Industrial Development Corporation (AIDC), was incorporated as a public limited company in 1971 to produce methanol and formaldehyde (formalin). The commercial production of the methanol unit had started in 1976 and it was the first company in India to manufacture methanol using natural gas. Based in Namrup in Assam, APL manufactures methanol and formaldehyde (Formalin) which is widely used in the plywood and agro-based industries. At present, the company has a methanol manufacturing capacity of 100 TPD (33,000 MTPA) and a formalin manufacturing capacity of 125 TPD (41,250 MTPA). APL has recently set up a 500-tonne-per-day (TPD) methanol manufacturing plant based on natural gas as feedstock at Namrup, along with a downstream 200-TPD formalin plant at Boitamari (near Bongaigaon), in West Assam. The methanol and formalin project has commissioned recently in March 2023.

Key financial indicators (audited)

APL Standalone	FY2021	FY2022
Operating income	92.5	125.9
PAT	8.3	22.7
OPBDIT/OI	1.8%	13.8%
PAT/OI	8.9%	18.0%
Total outside liabilities/Tangible net worth (times)	1.5	1.8
Total debt/OPBDIT (times)	410.5	51.8
Interest coverage (times)	-	-

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	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
				Mar 24, 2023	Dec 10, 2021	Jul 15, 2021	July 31, 2020	-
1	Term loans	Long term	890.67	866.50	[ICRA]BB+ (Negative)	[ICRA]BB+ (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	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 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
-	Term loan	22-Dec-2017	-	March 2031	890.67	[ICRA]BB+ (Negative)

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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