

May 12, 2023

Apcotex Industries Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based limits	78.0	78.0	[ICRA]AA-(Stable); reaffirmed
Short-term non-fund based limits	54.0	54.0	[ICRA]A1+; reaffirmed
Long-term/Short-term – Fund-based/Non-fund based Limits	30.0	60.0	[ICRA]AA-(Stable)/[ICRA]A1+; reaffirmed; assigned for enhanced amount
Term loan	132.0	125.0	[ICRA]AA-(Stable); reaffirmed
Long-term interchangeable limits [^]	(27.0)	(27.0)	[ICRA]AA-(Stable); reaffirmed
Short-term interchangeable ^{**}	(15.0)	(30.0)	[ICRA]A1+; reaffirmed; assigned for enhanced amount
Total	294.0	317.0	

*Instrument details are provided in Annexure-1

[^]Interchangeable with long-term fund based limits; ^{**}Interchangeable with long-term/short-term fund-based/non-fund based limits

Rationale

The reaffirmation of the ratings of Apcotex Industries Limited (AIL) factors in a healthy growth in its operating income in FY2023 and expectation of the trend continuing post the commissioning of the enhanced capacities. This capacity enhancement will also diversify the product and customer mix. The ratings continue to draw comfort from a healthy capital structure, despite the addition of debt for the capex, owing to a strong tangible net worth and comfortable margin profile. The company's liquidity profile has remained adequate due to healthy operational cash flows and availability of cash and investments of around Rs. 100 crore as on March 31, 2023.

The ratings draw comfort from AIL's strong market position in the synthetic rubber and synthetic latex segments in India and its promoter background with an experience of more than three decades in the industry. The ratings factor in the company's diversified customer base across various end-user industries.

The operating margins have witnessed moderation over the last two quarters largely in the synthetic rubber segment, where the margins are returning to normalcy owing to increase in competitiveness of imports with the moderation in the ocean freight charges, coupled with inventory losses following the correction in the raw material prices over the last few months. Amid a weakening demand scenario for a few products, the profitability is likely to remain moderate for a few more quarters, going forward. This, coupled with the addition of debt for the recently concluded capex, has weakened the debt metrics to some extent, although these will continue to be comfortable. ICRA notes that the company has been regularly incurring capex in the last few years for debottlenecking and improving efficiency. It further plans to incur capex to enhance its capacity for nitrile butadiene rubber (NBR) in the next 2-3 years, though the plans are at a drawing board stage.

Further, the ratings factor in the vulnerability of its profitability to high volatility in raw material prices (primarily styrene, butadiene and acrylonitrile) and the adverse foreign exchange (forex) movements due to significant raw material imports, along with competition from other suppliers. However, the exchange risk is partly mitigated by the natural hedge from its exports.

Key rating drivers and their description

Credit strengths

Strong promoter background and market position in synthetic rubber and synthetic latex segments in India – The company was established in 1980 as a division of Asian Paints (India) Limited. In 1991, the division was spun off as a separate company, headed by Mr. Atul Choksey, the former Managing Director of Asian Paints Limited. Mr. Choksey has more than four decades' experience in the paints and chemicals industry. The current Managing Director of the company, Mr. Abhiraj Choksey, and other management personnel who are experts in the field of chemicals, bring valuable experience to the company. The company enjoys a strong market presence in the Indian synthetic rubber and synthetic latex market.

Diversified clientele across various end-user industries – AIL's clientele has remained diversified with the top 10 customers contributing ~20-25% of the revenues in the last two years. The products find application in various industries such as paper and paperboards, gloves, textiles, carpet, construction, tyre cord, footwear, automobile, and rice roll. In addition, the company has developed strong relationships with reputed players across these industries.

Diversified product profile with expansion in latex division – Synthetic latex is used in industries like paper/paper board, carpet, construction, tyre cord, speciality etc. The management has taken conscious efforts to diversify the sales. In the past, the sales were highly skewed towards the paper and footwear industry, which has reduced over the years. The company also manufactures XNB latex used in gloves. AIL is the only manufacturer of nitrile rubber and high styrene rubber in India. At present, 70-75% of the total domestic requirement of NBR is met through imports and the remaining 25-30% by AIL.

Healthy financial profile; adequate liquidity supported by availability of cash and equivalents with unutilised credit lines – The company's reliance on external borrowings had been low in the past due to its strong net worth as a result of healthy accruals and moderate working capital intensity. However, over the last two years, the company undertook debt-funded capex to expand the capacity at Taloja and Valia, which was funded through a debt of Rs. 125 crore. Additional debt funding may be required if the company goes ahead with the NBR capex. ICRA does not foresee significant impact on the capital structure due to its strong tangible net worth and the limited debt on its balance sheet.

The interest coverage was more than 31 times in FY2023. In addition, ICRA notes the company's adequate liquidity profile and significant liquid investments in the form of cash, equity and mutual funds, as well as cushion in the fund-based limits. While there has been some moderation in the coverage indicators and liquidity following the addition of debt for the capex, these remain comfortable.

Credit challenges

Debt-funded capex moderates debt coverage indicators and liquidity profile to some extent, though these remain comfortable – The company undertook a capex of ~Rs. 200 crore towards capacity expansion, funded by a term loan of Rs. 125 crore. The term loan, coupled with the moderation in profitability in the near term, is likely to result in some weakness in the credit metrics and liquidity profile, though these are expected to remain comfortable.

Vulnerability of profitability to volatility in raw material prices and foreign exchange fluctuations – Raw material consumption accounts for ~70% of the sales, exposing AIL's profitability to price fluctuation risks. Its key raw materials - styrene, butadiene and acrylonitrile – have witnessed high price volatility in the past. Further, given the company's nature of business, it benefits from raw material prices going up as has been the case in the last four quarters. However, the steep fall in petrochemical prices has partly impacted the margins.

Also, AIL is heavily dependent on imported raw materials and given the uncertainties in the supply chain over the last two years, the inventory days have increased and continue to be so. Further, the company is exposed to forex fluctuation risk owing to significant exports and imports, though the risk is mitigated by a natural hedge and appropriate forward cover contracts.

Intense competition from domestic players and overseas suppliers – The company faces competition from domestic players in the synthetic latex segment as well as from imports across all its segments. The company's top line and profitability were impacted in the second half of FY2023, amid weakening demand. However, the company is likely to benefit from the Europe+1 substitution as a lot of capacities for latex in Europe have been out of production. While ICRA notes that the company is the only manufacturer for certain products in the country, including NBR, its ability to compete with other domestic and overseas manufacturers will remain critical.

Environmental and Social Risks

Environmental considerations: The industry in which the company operates and the products it deals with involves the handling of hazardous and inflammable materials. The company has ensured that the required process control, safety equipment and infrastructure are in place, as per global safety standards. These risks are somewhat mitigated by the company's track record of environmental compliance and strong operational capabilities. The Company has installed zero liquid discharge capability in Valia Plant, Gujarat.

Social considerations: The company is also exposed to social risks related to responsible production, human capital, health, and safety issues.

Liquidity position: Adequate

The liquidity position is supported by comfortable operational cash flows and availability of cash and investments of around Rs. 100 crore as on March 31, 2023. The company has maintained adequate cushion in working capital limits and the utilisation of these limits has remained lower than the drawing power. While the company has undertaken sizeable debt-funded capex in the past and has plans for the future as well, ICRA derives comfort from the expectation that the company will maintain adequate cash and investments to meet any exigencies.

Rating sensitivities

Positive factors – ICRA could upgrade AIL's ratings if the company demonstrates a healthy and consistent growth in its turnover and profitability, which coupled with the stabilisation of new capex, will ensure an ROCE of more than 23% on a sustained basis.

Negative factors – The ratings can be revised downwards in case of a material decline in operating income and profitability, leading to the debt/OPBDITA remaining above 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Chemical Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

AIL, incorporated in 1986, is engaged in the manufacturing of synthetic latex (XSB latex, VP latex, styrene acrylics and nitrile latex) and synthetic rubber (nitrile rubber, high styrene rubber, nitrile polyblends and nitrile powder). Synthetic rubber finds application in footwear, automobile, and rice roll industries, while synthetic latex finds application in paper and paperboard, textiles, carpet, construction and tyre cord industries. The company has two manufacturing facilities at Taloja in Maharashtra and Valia in Gujarat. The Taloja facility has a manufacturing capacity of 65,000 MTPA of synthetic latex and 7,000 MTPA of high styrene rubber; an additional 35,000 MTPA has been installed post capex. The Valia manufacturing facility has a manufacturing

capacity of 21,000 MTPA of nitrile rubber and its allied products; an additional 50,000 MTPA of XNBR latex has been installed post capex.

Key financial indicators (audited)

	FY2021	FY2022	FY2023 [^]
Operating Income (Rs. crore)	540.6	956.9	1,079.9
PAT (Rs. crore)	44.2	98.8	107.9
OPBDIT/OI (%)	12.9%	14.6%	14.7%
PAT/OI (%)	8.2%	10.3%	10.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.5	0.7
Total Debt/OPBDIT (times)	0.2	0.4	0.9
Interest Coverage (times)	18.3	43.0	31.3

PAT: Profit after Tax before adjustment for associate and joint ventures; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

[^]provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current Rating (FY2024)			Chronology of Rating History for the past 3 years*					
Instrument	Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore) as on March 31, 2023	Date & Rating in FY2023 12-May-23	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020	
					23-Mar-22	9-Sep-21	7-Jan-21	7-Sep-20	17-Mar-20	27-Sep-19
1 Fund-based limits	Long-term	78.0	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	[ICRA]A+(Stable)	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)
2 Non-fund based limits	Short-term	54.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3 Fund-based/Non-fund based limits	Long-term / Short-term	60.0	-	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]A+(Positive)/[ICRA]A1+	[ICRA]A+(Stable)/[ICRA]A1+	[ICRA]AA-(Negative)/[ICRA]A1+	[ICRA]AA-(Negative)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+
4 Term loan	Long-term	125.0	124.76	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	[ICRA]A+(Stable)	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)
5 Interchangeable	Long-term	(27.0)^	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	-	-	-	-
6 Interchangeable	Short-term	(30.0)**	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-	-	-

^Interchangeable with long-term fund-based limits; **Interchangeable with long-term/short-term fund-based/non-fund based limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based limits	Simple
Short-term non-fund based limits	Very Simple
Long-term/Short-term – Fund-based/ Non-fund based limits	Simple
Term loan	Simple
Long-term interchangeable	Simple
Short-term interchangeable	Very 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-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
-	Long-term fund-based limits	-	-	-	78.0	[ICRA]AA-(Stable)
-	Short-term non-fund based limits	-	-	-	54.0	[ICRA]A1+
-	Long-term / Short-term – Fund-based/Non-fund based limits	-	-	-	60.0	[ICRA]AA-(Stable))/[ICRA]A1+
-	Term loan	Oct-2021	7.70%	FY2027	125.0	[ICRA]AA-(Stable)
-	Long-term interchangeable	-	-	-	(27.0)	[ICRA]AA-(Stable)
-	Short-term interchangeable	-	-	-	(30.0)	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

ANALYST CONTACTS

Sabyasachi Majumdar
+91 12 4454 5304
sabyasachi@icraindia.com

Ankit Jain
+91 12 4454 5865
ankit.jain@icraindia.com

Prashant Vasisht
+91 12 4454 5322
prashant.vasisht@icraindia.com

Himani Sanghvi
+91 79 4027 1547
Himani.sanghvi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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