Amines and Plasticizers Limited

March 20, 2019

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based TL	14.0	[ICRA]BBB+(Positive); assigned
Long Term - Fund Based/ CC	67.0	[ICRA]BBB+(Positive); assigned
Long Term - Interchangeable	(35.0)	[ICRA]BBB+(Positive); assigned
Short Term - Non Fund Based	29.0	[ICRA]A2; assigned
Total	**110.0**	

Instrument details are provided in Annexure-1

Rationale

The assigned rating takes into consideration the long operating track record and technical expertise of the promoters in the chemical manufacturing segment. The company enjoys healthy market position and limited competition in the domestic market, being present in in the niche category of chemical products manufacturing like Methyl Diethanolamine (MDEA) which is used in petrochemical and oil refineries as a gas sweetening solvent and N Methyl Morpholine Oxide (NMMO) which finds its application as a solvent in viscose fibre industry. Technology related entry barrier as well as locational advantage also supplement its dominant market position. The ratings also derive strength from the healthy financial risk profile of the company driven by healthy Return on Capital Employed (RoCE), adequate capital structure and coverage indicators. The liquidity profile also remains adequate, given the minimal long-term debt repayment obligation and adequate buffer available in the working capital facilities in the form of unutilized limits with respect to the drawing power. Further, the promoter's ability to infuse liquidity in the form of unsecured loans as and when required provides additional comfort.

The ratings however remain constrained by the moderate scale of operations. The company's profitability also remains vulnerable to fluctuations in the crude oil price movement – as the raw materials are crude oil derivatives. The company is in the process of capacity expansion which is likely to improve margins going forward due to inhouse product manufacturing. The supplier concentration risk also remains high for the company since it remains dependent on a sole supplier for sourcing of a major raw material i.e. Ethylene Oxide (EO), which itself contributes over 40% of the total raw material cost. The sectoral concentration risk also remains high as over 70% of the company's revenues are derived from oil & gas as well as textile industry.

Going forward, the company's ability to achieve adequate capacity utilisation, improvement in profitability through prudent product mix and strengthening the credit metrics through effective working capital management will remain key rating sensitivities.

Outlook: Positive

The positive outlook reflects ICRA's expectation that the company's increasing focus towards the export market which has adequate demand for the speciality chemicals coupled with the recent capacity expansion undertaken by the company is likely to fuel future growth of APL over medium term. The company is also expected to witness improvement in profitability backed by the company's focus towards high margin manufactured products as against the relatively low margin traded sales. ICRA also expects that APL will continue to maintain a dominant market position in the domestic market, being present in the niche category of speciality chemicals. The outlook may be revised to Stable if APL's financial risk profile in terms of revenue growth and profitability does not witness the expected improvement. The outlook may be revised to 'Negative', if the liquidity position is significantly impacted due to a stretch in the working capital cycle or any sizeable unanticipated debt-funded capex. Pressure on profitability and return indicators will also trigger a downward revision in the outlook.

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 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 applications in oil refineries, natural gas plants, ammonia plants, petrochemical plants, pharmaceuticals and agrochemicals industries.

Healthy market position of the company in the specialty chemical segments – APL's main products manufactured include -Methyl Diethanolamine (MDEA), which is used in petrochemical industry and oil refineries, and N Methyl Morphine Oxide (NMMO), which is used as solvent in viscose fibre industry. These two products contribute around 70% to the total revenue of the company. APL has a healthy market share in these two products segments in domestic as well as overseas market due to the high technological barrier in the industry as well as location advantage. It currently exports ~60-70% of its manufactured MDEA to oil refining companies located in Southeast Asian and Middle East countries. The company also exports NMMO to the textile industries in Singapore, Hong kong, Belgium and South Korea.

Healthy financial risk profile driven by robust ROCE, adequate capital structure and coverage indicators - The company's financial risk profile in terms of ROCE, capital structure and coverage indicators has remained healthy over the years driven by adequate profitability, being present in niche category products manufacturing and absence of long term debt resulting in low debt levels. As on March 31, 2018. the gearing remained at 0.8 times, OPBDIT/ Interest at 4.0 times and total debt to OPBDITA at 1.9 times respectively. The capital structure as well as TD/ OPBDITA of the company is expected to moderate marginally in FY2019 due to long term debt addition pertaining to ongoing capex for capacity expansion. However, the same is expected to improve in FY2020 and going forward due to estimated healthy accruals.

Credit challenges

Vulnerability of company's profitability to fluctuations in the crude oil price movement – Being a crude oil derivative product, the company profitability remains susceptible to crude oil price movements. Further majority of the work orders are fixed price contracts, thus limiting the ability to pass on the price movements. Thus, any upward or downward movements in the crude oil prices impacts the operating profitability of the company. The same can be witnessed from the fluctuating OPMs since the past three fiscals due to volatility in crude oil prices. However, the impact is offsetted to an extent due to ability to pass on such fluctuations with lag effect for large part of the orders.

High Supplier concentration risk – The company depends on a sole supplier for sourcing of a major raw material - Ethylene Oxide which itself contributes over 40% of the raw material cost. The same 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 company's upward movement in profitability to an extent.

Exposed to foreign currency fluctuation risk - The company imports over 40% of its raw material cost i.e Morpholine and Ethanolamines traded products from Malaysia, China etc. The same exposes the company to the foreign exchange rate fluctuation risk in absence of any formal hedging practices. However, the same is mitigated to a large extent through equivalent exports, thus providing natural hedging.

Liquidity position

The company's current liquidity position is healthy in the near term, given the sufficient cushion available in working capital limits as witnessed from the utilization during 9MFY2019, which remained at ~80% of the sanctioned limits for the company. Further the promoter's ability to infuse unsecured loans during the year in case of any liquidity mismatch provides additional comfort to its liquidity profile.

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 rating is based on the consolidated financial statements of the issuer.

About the company

APL was incorporated in Year 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 license 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. Later on, the company diversified its product profile and commenced manufacturing of 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, pharmaceutical, textile, oilfield chemicals, cosmetic and 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 in various industries.

In FY2018, the company reported a consolidated net profit of Rs. 14.8 crore on an operating income (OI) of Rs. 325.3 crore, compared to a net profit of Rs. 14.8 crore on an OI of Rs. 294.9 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	294.9	325.3
PAT (Rs. crore)	14.8	14.8
OPBDIT/ OI (%)	9.6%	8.7%
RoCE (%)	26.2%	26.3%
Total Debt/ TNW (times)	1.1	0.8
Total Debt/ OPBDIT (times)	2.1	1.9
Interest Coverage (times)	4.4	4.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	March 2019	FY2018	FY2017	FY2016
1	Term Loan	Long Term	14.0	14.0	[ICRA]BBB+ (Positive)	-	-	-
2	Cash Credit	Long Term	67.0	-	[ICRA]BBB+ (Positive)	-	-	-
3	Interchangeable* (EPC/ PCFC / EBN / EBD	Long term	(35.0)	-	[ICRA]BBB+ (Positive)	-	-	-
2	Non Fund Based	Short Term	29.0	-	[ICRA]A2	-	-	-

** Interchangeable limits are sublimits to cash credit facilities*

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 No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Oct-2018	10.75%	Sept-2024	14.0	[ICRA]BBB+ (Positive)
NA	Cash Credit	-	-	-	67.0	
NA	Interchangeable limits*	-	-	-	(35.0)	
NA	Non fund based limits	-	-	-	29.0	[ICRA]A2

*Source: Company data; * Interchangeable limits are sublimits to cash credit facilities*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
APL Infotech Ltd.	51.00%	Full Consolidation

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About ICRA Limited:

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