

April 06, 2020

Amines and Plasticizers Limited: Ratings reaffirmed; Outlook revised to Stable

Summary of rating action

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

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to factor in Amines and Plasticizers Limited's (APL or the company) 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, 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. The ratings also derive strength from the company's healthy financial risk profile, driven by a healthy return on capital employed (RoCE) ratio, adequate capital structure and coverage indicators. The liquidity profile also remains adequate, given the minimal long-term debt repayment obligations and the adequate buffer available in the working capital facilities in the form of unutilised limits with respect to the drawing power.

The ratings, however, remain constrained by the moderate scale of operations. APL's profitability also 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 40% of the raw material cost.

Going forward, the company's ability to achieve adequate capacity utilisation, improve its profitability through a prudent product mix and strengthen the credit metrics through effective working capital management will remain a key rating sensitivity.

The outlook has been revised to Stable from Positive as ICRA expects a short-term adverse impact on APL's financial profile, given the challenging industry conditions because of Covid-19 and the overall lower global economic growth.

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 position in specialty chemical segments – APL's main products include MDEA, which is used in the petrochemical industry and at oil refineries, and NMMO, which is used as a solvent in the viscose fibre industry. These two products contribute around 55% 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 revenue from exports mainly to USA, Iran, 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 absence of long-term debt, which has led to low debt levels. As on December 31, 2019, the gearing remained at 0.8 times, interest coverage at 4.2 times and total debt/OPBDITA at 2.2 times at the standalone level. The capitalisation and coverage indicators are expected to improve gradually over the medium term on the back of expected steady accruals with no anticipated debt-funded capex.

Credit challenges

Profitability vulnerable to fluctuations in 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, most 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.

Liquidity position: Adequate

APL's liquidity is adequate with healthy cash flow from operations of nearly Rs. 18-20 crore, a capex commitment of Rs. 17 crore for FY2020 (for which a term loan of Rs. 4.15 crore has already been tied up) and moderate working capital utilisation levels of around 73%. APL's debt repayments for FY2020 also remain modest at Rs. 2.9 crore. The liquidity is further supported by cash and Cash equivalent of Rs 14.47 crore at end December 2019.

Overall, ICRA expects APL to be able to meet its near-term commitments through internal as well as external sources of cash and yet be left with sufficient cash surplus.

Rating sensitivities

Positive triggers – ICRA could upgrade APL's ratings if the company demonstrates a sustained improvement in its capacity utilisation including at its new plant. Specific credit metrics that could lead to a rating upgrade include total debt/OPBITDA below 1.5 times on a sustained basis.

Negative triggers – Pressure on APL's ratings could arise if there is a material degrowth in the sales volume, leading to a decline in profitability. Specific credit metrics that could lead to a rating downgrade include total debt/OPBITDA above 2.25 times on a sustained basis.

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 ratings are based on the consolidated financial statements of the rated entity

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.

In FY2019, the company reported a consolidated net profit of Rs. 16.4 crore on an operating income (OI) of Rs. 455.1 crore compared to a net profit of Rs. 14.8 crore on an OI of Rs. 326.4 crore in the previous year. In 9M FY2020, the company reported a standalone net profit of Rs. 19.3 crore on an OI of Rs. 299.0 crore.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	326.4	455.1
PAT (Rs. crore)	14.8	16.4
OPBDIT/OI (%)	8.7%	7.4%
RoCE (%)	26.3%	25.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	2.1
Total Debt/OPBDIT (times)	1.9	2.3
Interest Coverage (times)	4.0	4.2
DSCR	3.4	3.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					6-Apr-2020	20-Mar-2019		
1	Term Loan	Long Term	14.0	11.8	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)		
2	Cash Credit	Long Term	67.0		[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)		
3	Interchangeable* (EPC/PCFC / EBN / EBD)	Long Term	(35.0)		[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)		
3	Letter of Credit & Bank Guarantee	Short Term	29.0		[ICRA]A2	[ICRA]A2		

Amount in Rs. crore

* Interchangeable limits are sub-limits of 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	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%	Sep-2024	14.0	[ICRA]BBB+(Stable)
NA	Cash Credit	-	-	-	67.0	[ICRA]BBB+(Stable)
NA	Interchangeable Limits	-	-	-	(35.0)	[ICRA]BBB+(Stable)
NA	Letter of Credit & Bank Guarantee	-	-	-	29.0	[ICRA]A2(Stable)

Source: Company data; * Interchangeable limits are sub-limits of cash credit facilities
Source: Amines and Plasticizers Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
APL Infotech Limited	51.0%	Full Consolidation
Amines and Plasticizers FZE	100.0%	Full Consolidation

*The company had sold its stake in APL infotech Limited in March 2020, so the same will not be a part of the consolidated financials from FY2020

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