APM Industries Limited

March 02, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	62.90 (Enhanced from 49.70)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Total Bank Facilities	**62.90 (Rs. Sixty-Two Crore and Ninety Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of APM Industries Limited (APMIL) factors in the improvement in the overall financial risk profile of the company characterised by growth in income, profitability and debt coverage indicators of the company during 9MFY22 (refers to the period April 1 to December 31) on the back of improved demand and sales realisation in the textile industry. The ratings take cognizance of the modernisation capex incurred by the company in the current year which is expected to improve the profitability going forward. Further, the ratings continue to derive strength from the experienced promoters along with long track record of operations and established relationship with customers and suppliers. The ratings, however, continue to remain constrained by modest scale of operations, volatility in the raw material prices which are dependent on crude oil prices and fragmented nature of industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Growth in scale of operations with total operating income above Rs 400 crore and profitability margins above 12% on a sustained basis
- Improvement in operating cycle to less than 60 days on a sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in the capital structure with overall gearing ratio beyond 1.00x.
- Reduction in PBILDT margin below 7.00% on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in operational and financial risk profile during 9MFY22

The company reported improvement in overall financial profile during 9MFY22 characterised by growth in income, profitability and debt coverage indicators. During 9MFY22, the company has achieved total operating income of Rs. 229.07 crores as against Rs. 167.35 crores in 9MFY21; exhibiting a growth rate of ~37%. The growth is mainly attributable to improved demand in the textile sector. The capacity utilization has improved to 93.26% during 9MFY22 from 82.37% during 9MFY21. The company reported improvement in PBILDT margin to 10.39% in 9MFY22 from 6.88% in 9MFY21 led by higher increase in sales realization vis-à-vis cost of raw materials. The sales realization for yarn has increased from Rs. 137.51 per kg in 9MFY21 to Rs. 154.51 per kg, while the raw material cost has increased from Rs. 60.04 per kg in 9MFY21 to Rs. 74.85 per kg in 9MFY22. Consequently, the PAT margin has also improved to 4.41% in 9MFY22 as against 1.22% in 9MFY21.

Healthy capital structure and debt-coverage indicators

As on March 31, 2021 the overall gearing of the company stood at 0.24x and the total debt stood at Rs. 32.69 crores. Further, the debt coverage indicators stood comfortable owing to improvement in the profitability margins during FY21. The total debt/GCA and interest coverage ratio stood at 2.90x and 4.31x respectively for FY21 (PY: 4.53x and 3.73x respectively). During 9MFY22, the interest coverage ratio has further improved to 10.92x on account of improved profitability and lower interest cost. During the current year, the company has availed term loan of Rs. 13.20 crores towards capex for the purpose of modernization of machineries. The company has planned to modernize the plant and machinery of the company for a total outlay of Rs. 18.25 crore. This would enable the Company to save cost of production while improving the quality and productivity. Despite additional debt, the overall gearing levels are expected to remain comfortable around 0.40x going forward.

Experienced Promoters

The company was incorporated in 1973 by Mr. R.K. Rajgarhia, who is currently the Chairman of the company and has a vast experience of more than 4 decades in the textile industry. The company has a team of trained and experienced personnel from the textile industry to support the top management.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Long track record of operations and established relationship with customers and suppliers
The company has been in this line of business for over 40 years and has established relations with its customers and suppliers. APMIL supplies yarn to many well-known domestic companies and traders. Further, the customer base is diversified with top ten customers contributed close to 37% to net sales of APMIL during FY21.

Key Rating Weaknesses
Volatility in raw material prices
The main raw material is Polyester Fibre (PSF: ~79% of raw material in FY21) which is procured domestically. PSF is a derivative of crude oil and its price is dependent on movement of crude oil prices. Furthermore, low bargaining power with large raw material suppliers affects profitability. Hence, any volatility in the raw material prices may affect the company's margins. Hence, any volatility in the raw material prices may affect the company's margins.

Fragmented nature of industry
APMIL operates in a cyclical and fragmented Man-Made Fibre (MMF) industry marked by presence of various organized and unorganized and certain large players. Intense competition in the industry limits the pricing abilities of the players operating in the industry.

Liquidity: Adequate
The liquidity of the company is adequate characterized by a current ratio of above 1.30x since last 2 fiscal years and a modest cash and bank balance of Rs. 2.96 crore as on June 30, 2021. The repayment obligations for FY22 stood at Rs. 5.39 crore out of which the company has already repaid Rs. 5.08 crores till December 31, 2021. The capex requirements of the company are modular at around Rs. 18 crore in the medium term which is funded through term debt of Rs. 13.20 crore and rest from internal accruals. The average working capital utilization level was around 31.43% for last twelve months ended January 2022.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Rating Methodology-Manmade Yarn Manufacturing
Rating Methodology-Manufacturing Companies

About the Company
APMIL is promoted by Mr. R.K. Rajgarhia, who is the Chairman of the company. The company is engaged in the manufacturing of synthetic blended yarn comprising polyester/viscose, polyester 100%, acrylic 100% and acrylic/polyester yarn with an installed capacity of 55,584 as on June 30, 2021. The company majorly caters to domestic market. During FY18, the company diversified its product with expansion into Sewing thread dyeing and cone/tube winding machine with the capacity of 350 MTPA. The company has also installed a 1.75 MW solar plant in FY20 for captive use.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22(UA)
Total operating income	269.92	237.63	229.07
PBILDT	18.14	17.11	23.80
PAT	7.17	4.79	10.11
Overall gearing (times)	0.40	0.24	NA
Interest coverage (times)	3.73	4.31	10.92

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	36.00	CARE BBB+; Stable
Term Loan-Long Term		-	-	April 2028	26.90	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	36.00	CARE BBB+; Stable	1)CARE BBB; Stable (13-Sep-21)	1)CARE BBB; Stable (17-Nov-20)	1)CARE BBB; Stable (16-Mar-20) 2)CARE BBB; Stable (03-Jul-19) 3)CARE BBB+ (CWD) (13-Jun-19)	1)CARE BBB+; Stable (01-Mar-19)
2	Term Loan-Long Term	LT	26.90	CARE BBB+; Stable	1)CARE BBB; Stable (13-Sep-21)	1)CARE BBB; Stable (17-Nov-20)	1)CARE BBB; Stable (16-Mar-20) 2)CARE BBB; Stable (03-Jul-19) 3)CARE BBB+ (CWD) (13-Jun-19)	1)CARE BBB+; Stable (01-Mar-19)
3	Non-fund-based - LT-BG/LC	LT	-	-	1)Withdrawn (13-Sep-21)	1)CARE BBB; Stable (17-Nov-20)	1)CARE BBB; Stable (16-Mar-20) 2)CARE BBB; Stable (03-Jul-19) 3)CARE BBB+ (CWD) (13-Jun-19)	1)CARE BBB+; Stable (01-Mar-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Term Loan-Long Term	Simple
2	Fund-based - LT-Cash Credit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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