NOCIL Limited

January 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	100.00 (Reduced from 120.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	100.00 (Enhanced from 80.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**200.00 (Rs. Two hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of NOCIL Limited (NOCIL) continue to factor its dominant market position in rubber chemicals industry in India and its long-established relationship with large domestic and global players in the tyre industry. The ratings also factor improvement in its operating profitability post H1FY21 (FY refers to the period April 1 to March 31), along with its comfortable capital structure and strong debt coverage and liquidity indicators. The ratings take cognizance of successful commercialisation and stabilisation of its recent capacity expansion at Dahej which was entirely funded through internal accruals. The above rating strengths, however, continue to be tempered by susceptibility of its profitability to volatility in raw material prices, along with considerable dependence on tyre/automobile industry for its growth. Also, its operations and profitability margins remain exposed to the risks associated with competition from imports.

Rating Sensitivities

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

- Substantial increase in global market share backed by improved scale of operations and greater exports resulting in more diversified operations
- Sustained improvement in PBILDT margin at more than 25% while maintaining healthy operating cash flows

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

- PBILDT margin at less than 15% and return on capital employed (ROCE) at less than 12% on a sustained basis
- Overall gearing increasing above 0.35x on a sustained basis going forward
- Any change in government regulations pertaining to production and sales of certain products thereby significantly impacting its business and profitability
- Heavy dumping of rubber chemicals in India significantly impacting its realisations

Detailed description of the key rating drivers

Key Rating Strengths

Leadership position in the domestic rubber chemicals industry

NOCIL has more than four decades of experience in the manufacturing of rubber chemicals. Over the years, it has been able to maintain market leadership position in rubber chemicals in the domestic market. The market leadership is supported through in-house research and development (R&D) which focuses on developing better products and improving process efficiencies. The R&D department in Navi Mumbai is recognised by the Ministry of Science and Technology, Government of India. NOCIL has tie-ups with several premier science and technology institutes in India for development of products.

Improvement in TOI during FY21 although with moderation in profitability margins; however, the same is expected to improve in FY22

The total operating income (TOI) of NOCIL improved by 9% during FY21 on y-o-y basis to Rs.925 crore driven by 12% growth registered in its sales volume over FY20. The pickup in sales volume was backed by uptick in demand from tyre majors in domestic as well as international markets. The demand from them has been driven by a buoyant replacement market and an improving original equipment manufacturer (OEM) market. However, its PBILDT margin moderated by 725 bps on y-o-y basis to 14.29% during FY21 owing to sharp increase in raw material prices in Q3 and Q4 of FY21 apart from pricing pressure due to temporary excess supply over demand owing to impact of Covid-19 pandemic. Also, due to logistics issues, some of the import orders for raw material were delayed and the company had to buy raw material from spot market at higher rates to fulfil its delivery commitments. Accordingly, the company implemented price hikes on its products in the months of January 2021 and April 2021 to mitigate the impact of rise in raw material prices to an extent.
The company is expected to register y-o-y volume growth of around 40% and revenue growth of around 60%-65% on lower base of FY21 aided by revival in demand from tyre industry which contributes around 65% to its revenues leading to improved utilisation of installed capacities, China+1 sourcing model adopted by global tyre manufacturers, recent price hikes undertaken

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

and increased focus on export market. Also, PBILDT margin is expected to improve from the lower level of FY21 to around 16-17% driven by stabilisation of input prices and better absorption of fixed cost on the back of improved capacity utilisation.

Comfortable capital structure and strong debt coverage indicators

The working capital requirements of NOCIL are majorly funded through internal accruals and non-fund-based limits are utilised to a certain extent for funding raw material purchases. Despite maintaining healthy dividend pay-out over the years, owing to absence of term debt and nil utilisation of fund-based working capital borrowing, its overall gearing remained comfortable at 0.04x as on March 31, 2021. Accordingly, with generation of healthy cash accruals, debt coverage indicators remained strong with total debt/ gross cash accruals (GCA) of 0.41 times and PBILDT interest coverage of over 136 times during FY21.

Successful commercialisation and stabilisation of its expanded capacity

NOCIL undertook capex of around Rs.450 crore in two phases - Phase 1 with an estimated cost of Rs.170 crore and Phase -2 with an estimated cost of Rs.280 crore. Phase – 1 capex was completed by January 2019, while phase 2 capex was completed by September 2020. With completion of phase-1 NOCIL's installed capacity had increased from 55,000 MTPA to 75,000 MTPA (including intermediates). Furthermore, after phase – 2, the installed capacity increased to 110,000 MTPA (including intermediates). The entire capital expenditure has been funded by internal accruals. Currently, NOCIL is operating at around 70% capacity utilisation levels as indicated by the company's management which is expected to improve going forward. Accordingly, ROCE of the company which had moderated over the last two years ended FY21 to 8.45% is now expected to improve going forward.

Liquidity: Strong

Liquidity of NOCIL is strong marked by healthy cash accruals against nil term debt repayment obligations. With an overall gearing of 0.04 times as of March 31, 2021, it has sufficient gearing headroom to raise additional debt; although it is expected to fund its routine capex and working capital requirement from internal accruals only. The utilisation of its fund-based working capital limits remained less than 5% over the trailing 12 months ended November 2021. Accordingly, its unutilised bank lines are more than adequate to meet its incremental working capital needs over the next one year. Its current ratio was also strong at 2.94 times as on March 31, 2021.

Key Rating Weaknesses

High dependence on tyre / automobile industry making its operations susceptible to sector concentration risk

The automobile industry is the major consumer of rubber for manufacturing of the tyres. Apart from the tyre industry, rubber finds application in various other industries like footwear, re-tread rubber, moulded and extruded goods, auto components, belts and hoses, cycle tyres, gloves, etc. Out of the total demand for rubber chemicals, around 65% is from tyre industry and accordingly fortunes of NOCIL are directly linked to the performance of tyre / automobile industry. The auto sector which experienced a recessionary situation from October 2018 onwards had resulted in significant decline in the scale of operations of NOCIL during FY20.

Competition from cheap imports, however, China plus one sourcing strategy being adopted by global tyre majors could augur well for NOCIL

NOCIL is exposed to aggressive competition from the dumping of rubber chemicals in India mainly from China, Korea and USA. Earlier, NOCIL was protected to the extent of anti – dumping duty (ADD) imposed by the Government of India on the import of some of its products but, the same was discontinued with effect from July 2019. Upon removal of ADD and subdued demand due to Covid pandemic, profitability margins of NOCIL had been impacted significantly in FY20 and FY21.

During last three years, China encountered some instances of disruptions due to pollution, shortage of power supply, accidents in chemical plants and the outbreak of Covid-19 pandemic which raised a question mark on the sustainability of the supply chain for the rubber chemical industry. Given the concentration of rubber chemicals capacity in China along with the associated uncertainties, there was some sense of discomfort amongst international tyre majors about overdependence on a single source country. Any de-risking of this source will present an additional opportunity for NOCIL. NOCIL offers almost a complete range of rubber chemicals and moreover has strong R&D capabilities. By virtue of its long association with most international tyre majors, NOCIL also enjoys a preferred-supplier status with their Indian operations and now also caters to the global requirement for its existing customers.

Profitability exposed to volatility in raw material prices

Most of the raw materials of NOCIL, including benzene, chlorinated aromatics, amines and other chemicals, are predominantly crude based; thus, any volatility in raw material prices is expected to have a bearing on the profitability margins. NOCIL enters into fixed price volume contract for a quarter with its key customers, and for the remaining customers the contracts are entered on a spot basis. Thus, the profitability of the company continues to be impacted by any unfavourable input price scenario vis-a-vis selling price terms till the increased corresponding selling price is not realised. NOCIL's operating profitability had been impacted in FY21 mainly on the back of sharp rise in prices of its raw material which was subsequently passed on its customers with some time-lag leading to improved operating profitability in H1FY22.

Analytical Approach: Consolidated. CARE Ratings Limited has analysed NOCIL's credit profile by considering consolidated financial statements of the group owing to operational and financial linkages between the parent and its sole 100% subsidiary, i.e., PIL Chemicals Limited (PIL), and common management.

Applicable Criteria:
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy of Default Recognition
Rating Methodology – Manufacturing Companies
Rating Methodology: Consolidation
Criteria for Short Term Instruments
Financial Ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
Incorporated in 1961, NOCIL, an Arvind Mafatlal Group (AMG) company, is engaged in the manufacturing of rubber chemicals and intermediates and is one of the leading producers of the same in the domestic market. As on September 30, 2021, the promoter group held 33.88% equity stake in NOCIL.
NOCIL manufactures around 23 types of rubber chemicals which can be broadly classified under three grades which are accelerators, anti-degradants/anti-oxidants and speciality chemicals. The products find application in industries like tyre, industrial rubber products, consumer rubber products and other segments of rubber processing industry. The manufacturing facilities are located at Navi Mumbai, Maharashtra and Dahej, Gujarat. The total capacity including intermediates is around 110,000 tonners per annum as on September 30, 2021. NOCIL also exports to around 40 countries across the world with export sales contributing to around 34% of its total revenue in FY21.

Brief Financials (Rs. crore)-Consolidated	FY20 (A)	FY21 (A)	H1FY22 (Prov.)
Total operating income	851.29	925.21	721.84
PBILDT	183.29	132.17	126.18
PAT	130.67	88.41	77.40
Overall gearing (times)	0.02	0.04	0.04
Interest coverage (times)	138.86	136.26	300.43

A: Audited, Prov.: Provisional,

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Annexure-2

Covenants of rated instrument/facility: Not applicable

Complexity level of various instruments rated for this company: Annexure-3

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
Non-fund-based - ST-BG/LC		-	-	-	100.00	CARE A1+
Fund-based-Long Term		-	-	-	100.00	CARE AA; 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-Term Loan	LT	-	-	-	-	-	1)Withdrawn (12-Mar-19)
2	Non-fund-based - ST-BG/LC	ST	100.00	CARE A1+	-	1)CARE A1+ (05-Jan-21)	1)CARE A1+ (09-Mar-20)	1)CARE A1+ (12-Mar-19)
3	Fund-based-Long Term	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (05-Jan-21)	1)CARE AA; Stable (09-Mar-20)	1)CARE AA; Stable (12-Mar-19)
4	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	-	-	1)Withdrawn (06-Mar-19)

Annexure 3: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based-Long Term	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure 4: 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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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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