NOCIL Limited

January 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	120.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	80.00	CARE A1+ (A One Plus)	Reaffirmed
Total	**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; CIN: L99999MH1961PLC012003) continue to factor the dominant market position of NOCIL 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 in NOCIL's consistent operational performance in the past, notwithstanding decline witnessed in FY20 on the back of slowdown in the auto industry leading to decline in domestic volumes. Sales realizations were adversely impacted in line with the international selling prices, further compounded by removal of anti -dumping duty w.e.f. July 2019, which was earlier providing a level playing field for domestic manufacturers vis-a-vis imported products. Further, continued trade war between USA and China also impacted sales realizations as products were increasingly dumped into non- USA markets including India.

Operating performance was adversely impacted in Q1FY21 on the back of nationwide lockdown due to CoVID -19 however, manufacturing activity gradually picked up from July 2020 onwards with increasing capacity utilization on a month- on-month basis resulting in improvement in Q2FY21 performance for NOCIL. As per a recent notification, the Directorate General of Trade Remedies (DGTR) has recommended imposition of an interim anti- dumping duty (ADD) on import of rubber chemical PX-13[2] from Korea, China and USA. The imposition of this duty is likely to boost NOCIL's operating profitability to some extent. Further, the revival of demand in the auto industry going forward, is likely to result in increased demand for tyres and consequently higher demand for NOCIL's products. Improved capacity utilization of existing and new facilities is likely to bring economies of scale and result in improved operating profitability.

The ratings take cognizance of the successful mechanical completion of the capex in Dahej entirely funded using internal accruals. Going forward, ramping up of operations of the recently added capacities, while retaining healthy operating profitability shall be a key rating monitorable.
NOCIL continues to have a strong liquidity position marked by healthy cash accruals, liquid investments and unutilized working capital bank borrowings limits.

The rating strengths, however, continue to be tempered by exposure to any volatile movement in raw material prices, along with considerable dependence on tyre/automobile industry for growth. Also, the operations and profitability margins are exposed to risks associated in relation to import threat.

Rating Sensitivities

Positive factors:

- *Substantial increase in global market share resulting in improved scale of operations*
- *Sustained improvement in operating profitability while maintaining healthy operating cash flows*

Negative factors:

- *Total debt/ PBILDT deteriorating beyond 1.15x on a sustained basis going forward*
- *Overall gearing increasing above 0.35x on a sustained basis going forward*

Detailed description of the key rating drivers

Key Rating Strengths

Leadership position in the domestic rubber chemicals

NOCIL has more than four decades of experience in manufacturing of rubber chemicals. Over the years, it has been able to maintain market leadership position in rubber chemicals[3] in the domestic market. The market leadership is supported

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*
[2] This product accounts for ~ 30%-35% of total sales for NOCIL
[3] *Source: NOCIL; not independently verified by CARE.*

through in-house research and development which focuses on developing better products and improving process efficiencies. The research and development department in Navi Mumbai is recognised by 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.

Revival in H2FY21 post decline in TOI in FY20 and H1FY21

Continued slowdown witnessed in the auto industry which started in the second half of FY19 and worsened in FY20, adversely impacted tyre sales and consequently impacted demand for rubber chemicals. Further, removal of anti- dumping duty from July 2019 put pressure on realizations as the same was earlier providing a level playing field to domestic manufacturers vis-a-vis imported products. Also, increased dumping of products from China on the back of the continued trade war between USA and China has adversely impacted sales realizations. Despite reduced volumes and sales realizations in FY20 in the domestic market, export volumes registered a healthy growth on account of better product mix (specialized applications) offered by NOCIL, its long established relationship with clients.

Performance was adversely impacted in Q1FY21 on account of the lockdown announced due to CoVID-19. Manufacturing resumed for NOCIL only from mid May 2020 as its products didn't fall under essential category. Further, sub –optimal level of operations at the customer's end till June 2020, also led to low capacity utilization levels. As such Q1FY21 sales were lower by 50% as compared to last year. From July 2020 onwards, capacity utilization levels started increasing and as of now, capacity utilization has crossed pre- CoVID levels. Operating levels at tyre majors also started picking up and there is a medium-term positive demand outlook both from domestic and multinational tyre companies.

Healthy profitability margins, notwithstanding the decline in FY20

NOCIL's PBILDT margin had declined from 28.42% in FY19 to 21.53% in FY20 on the back lower domestic volumes leading to reduced capacity utilization and also pricing pressure across product segments. Pricing pressure was felt on account of decline in demand on the back of slowdown in the auto industry, further compounded by removal of ADD on imports from China and Korea with effect from July 2019. Operating profitability was further impacted in H1FY21 on account of shutdown of operations leading to lower absorption of fixed costs. However, with pick up in manufacturing activity from Q2FY21 onwards, capacity utilization has improved and operating profitability is expected to improve going forward. Further, DGTR in its recent notification has recommended imposition of an interim ADD on imported rubber chemical PX-13 from China, Korea and USA. The imposition of this duty shall further boost the operating profitability of the company.

Strong debt coverage indicators; company continues to be debt free

The working capital requirements of NOCIL are majorly funded through internal accruals and utilization of non-fund based limits to certain extent for funding purchases. Absence of long term debt and no utilization of working capital borrowing has resulted in a comfortable gearing of 0.02x as on March 31, 2020. Zero debt coupled with healthy cash accruals has resulted in strong debt coverage indicators for NOCIL.

Successful mechanical completion of the project capex, with the entire project been funded using internal accruals

NOCIL undertook capex of around Rs.448 crores in two phases- Phase 1 with an estimated capex of Rs.170 crore and Phase -2 with an estimated capex of Rs. 278 crores. Phase – 1 capex was completed in January 2019. As on September 30, 2020 the total cost for phase 2 has also been incurred. CARE notes that the entire capital expenditure has been funded by internal accruals. Going forward, successful ramping up of new capacities while maintaining healthy operating profitability shall be a key rating monitorable.

Key Rating Weaknesses

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

Apart from competition from unorganized sector, 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 has been discontinued with effect from July 2019. NOCIL had filed for fresh application of duties for one of its main products and as per notification dated November 11, 2020, DGTR has recommended imposition of interim ADD on imported rubber chemical PX-13. The ADD shall vary depending on the country of import.

During last 3 years, there were instances of pollution, explosion in chemical plants and the recent COVID-19 pandemic in China which raised a question on sustainability of supply chain. Given the concentration of rubber chemicals capacity in China along with the associated uncertainties, there is some sense of discomfort amongst international tyre majors about over-dependence 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, its strong R&D capabilities are valued by the tyre majors globally. By virtue of its long association with most international tyre majors, NOCIL also enjoys a preferred-supplier status with their Indian operations.

Profitability exposed to volatility in raw material prices
Most of the raw materials 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 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 to any unfavourable input price scenario vis-a-vis selling price terms till the increased corresponding selling price is not realized. Further, it is to be noted that the increase in corresponding selling prices is dependent on global demand and supply scenario. Currently, the excess supply has been neutralized.

Liquidity: Strong
NOCIL has strong liquidity indicators, marked by nil utilization of fund based working capital limits and very low utilization of non- fund based limits. Its liquidity position is further supported by healthy cash accruals, absence of long term debt repayments and a healthy cash and cash equivalents balance of Rs. 97.03 crore as on September 30, 2020.

Analytical approach: CARE analyzed NOCIL's credit profile by considering consolidated financial statements of the group owing to operational and financial linkages between the parent and 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 on Default Recognition
CARE's criteria on consolidation
CARE's methodology for Short-term Instruments
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector
CARE's criteria on 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 December 31, 2019, the promoter group holds 33.73% equity stake in NOCIL.
NOCIL manufactures around 22 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 in Navi Mumbai, Maharashtra and Dahej, Gujarat. The total capacity including intermediates is around 73,500 tonnes per annum which has increased from 55,000 tons per annum after successful commercial production of Phase – 1 of the project is Dahej. NOCIL's exports to around 40 countries across the world with export sales contributing to around 33% of total revenue in FY20.

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

Brief Financials (Rs. crore) (Consolidated)	FY19 (A)	FY20 (A)	H1FY21 (UA)
Total operating income	1047.75	851.29	339.89
PBILDT	297.82	183.29	51.41
PAT	184.85	130.67	28.77
Overall gearing (times)	0.02	0.02	0.01
Interest coverage (times)	472.73	138.86	100.80

A: Audited; UA: Unaudited
Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

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

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	-	-	-	-	80.00	CARE A1+
Fund-based-Long Term	-	-	-	-	120.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (12-Mar-19)	1)CARE AA; Stable (08-Jan-18)
2.	Non-fund-based - ST-BG/LC	ST	80.00	CARE A1+	-	1)CARE A1+ (09-Mar-20)	1)CARE A1+ (12-Mar-19)	1)CARE A1+ (08-Jan-18)
3.	Fund-based-Long Term	LT	120.00	CARE AA; Stable	-	1)CARE AA; Stable (09-Mar-20)	1)CARE AA; Stable (12-Mar-19)	1)CARE AA; Stable (08-Jan-18)
4.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	-	1)Withdrawn (06-Mar-19)	1)CARE A1+ (08-Jan-18)

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

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

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Name: Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact-1
Name: Arti Roy
Contact No: 9819261115
Email ID- arti.roy@careratings.com

Analyst Contact-2
Name: Mr. Sudarshan Shreenivas
Contact No: +91-22-6754 3566
Email ID- sudarshan.shreenivas@careratings.com

Relationship Contact
Name: Mr. Saikat Roy
Contact no. +91-22-6754 3404
Email ID: saikat.roy@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**