NOCIL Limited

October 09, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long term bank facilities	250.00 (Enhanced from 150.00)	CARE AA; Stable	Reaffirmed
Short term bank facilities	350.00	CARE A1+	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of NOCIL Limited (NOCIL) continue to factor its dominant market position in the rubber chemicals industry in India and its long-established relationship with large domestic and global players in the tyre industry. The ratings further factor in the sustenance of its healthy PBILDT margins during FY23 (refers to the period from April 1 to March 31) and Q1FY24; albeit moderated as against FY22 on account of cheap imports and degrowth of volumes in the exports market. Further, its comfortable capital structure, strong debt coverage and liquidity indicators, and expected growth in scale of operations with expanded capacities underpins its ratings.

The above rating strengths, however, continue to be tempered by susceptibility of its profitability to volatility in the raw material prices, along with considerable dependence on the tyre/automobile industry for its growth. Moreover, its operations and profitability margins remain exposed to the risks associated with competition from imports.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- PBILDT margin at less than 15% and return on capital employed (ROCE) at less than 12% on a sustained basis.
- Significant moderation in Total Debt/ PBILDT on a sustained basis.
- Any change in government regulations pertaining to production & sales of certain products thereby significantly impacting its business and profitability.
- Heavy dumping of rubber chemicals in India significantly impacting its realizations

Analytical approach: Consolidated

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

Outlook: Stable

The 'Stable' outlook on the rating reflects that NOCIL shall continue to hold a dominant market position in the domestic rubber chemicals industry along with maintaining its comfortable financial risk profile in the near term.

Detailed description of the key rating drivers:

Key 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 with an overall basket of 20 plus rubber chemicals in the product portfolio. The company has presence in over 40 countries and enjoys long standing relationships with its customers. 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

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

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.

'China plus one' sourcing strategy being adopted by global tyre majors augurs well for NOCIL: During last few 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 the overdependence on a single-source country. De-risking of this source presents an additional opportunity for NOCIL which offers a wide range of rubber chemicals backed by 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. Furthermore, NOCIL is also expected to increase exports in its sales mix in the medium term with various initiatives in process to capture the target countries.

Stable growth in revenues during FY23 with lower utilization of the enhanced capacities; albeit expected to improve going forward: NOCIL earned a Total Operating Income (TOI) of ₹1,615 crore during FY23 witnessing a growth of around 3% as against TOI of ₹1,568 crore reported during FY22. During Q1FY23, NOCIL registered significantly higher volumes led by improved demand from tyre companies in both OEM and replacement markets. However, the next two quarters remained challenging for the company largely on account of global recessionary trends as well as inflationary pressures. The company's sales volume experienced a 4% decline on an annual basis during FY23 achieving 65% capacity utilization levels mainly on account of moderation in exports by around 21% particularly due to decrease in demand in the latex market within the Southeast Asian region. However, the reduction in demand in these export markets got partially offset with the growth in domestic demand. NOCIL reported PBILDT margins of 15.57% during FY23 as against 18.16% during FY22 as the company had to resort to competitive pricing on account of cheap imports and maintain its sales volumes as well as market share. The company is currently operating at around 65% capacity utilization as indicated by the company management and the same is expected to improve going forward with expected recovery in the exports market in the near term coupled with sustained demand growth in the domestic market.

Comfortable capital structure and strong debt coverage indicators: The working capital requirements of NOCIL are primarily 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 the absence of term debt and minimal utilisation of fund-based working capital borrowing, its overall gearing remained comfortable at 0.02x as on March 31, 2023. Accordingly, with generation of healthy cash accruals, debt coverage indicators remained strong with total debt/gross cash accruals (TDGCA) of 0.15x and PBILDT interest coverage of over 209x during FY23. The company has also recently enhanced its working capital limits in line with the expected increase in scale of operations in the near to medium term.

Liquidity: Strong

The liquidity of NOCIL is strong marked by healthy cash accruals against nil term debt repayment obligations. With an overall gearing of 0.02x as on March 31, 2023, it has sufficient gearing headroom to raise additional debt, although it is expected to fund its routine capex from internal accruals only. NOCIL hardly utilizes its working capital limits wherein the average utilization of the limits stood minimal at around 12% for the past 12 months ended August 31, 2023. Its current ratio was also strong at 5.10x as on March 31, 2023. Furthermore, it had free cash and cash equivalents of ₹83.34 crore and liquid investments of ₹146.57 crore as on March 31, 2023.

Key weaknesses

High dependence on the 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, including footwear, retread 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, the revenues of NOCIL remain exposed to the performance of the tyre/automobile industry. The domestic automobile sales grew by around 20% while exports reduced by around 15% on a year-on-year basis during FY23 owing to global economic slowdown. Recovery of the automotive sector led by pick-up in demand augurs well for players like NOCIL in the near to medium term.

Competition from cheap imports: NOCIL is exposed to aggressive competition from the dumping of rubber chemicals in India, mainly from China, Korea and USA. In view of the prevailing recessionary trends, any underutilisation at the Chinese competitors end may lead to aggravated dumping in the nearby markets including India. To counter the same, NOCIL had to resort to competitive pricing to maintain its sales volume. Aggressive pricing by the competition going forward could have an impact on the profitability margins of NOCIL.

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 the 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-à-vis selling price.

Environment, social, and governance (ESG) risks

Particulars	Risk factors
Environmental	Effluents after treatment, meeting prescribed norms are discharged into MIDC/ GIDC drainage pipeline respective for Navi Mumbai and Dahej plants. Hazardous waste is stored at designated area and periodically disposed of to TTCWMA. NOCIL endeavours to reduce carbon emissions and is initiating measures that are commercially and economically viable to reduce reliance on carbo-intensive energy sources. The company continuously strives to increase use of renewable energy and fuels and adopting most efficient technologies for manufacturing process to improve energy
Social	During FY23, NOCIL incurred ₹3.51 crore expense on 15 programmes on various CSR activities as against required expense of ₹3.29 crore as per Companies Act. During FY23, there were no complaints relating to child labour, forced labour, involuntary labour, sexual harassment of women at workplace. The company continues to provide adequate training to its employees and workers on health and safety measures and skill upgradation.
Governance	The company ensures compliance with the best corporate governance practices as laid down by the SEBI (LODR) Regulations, 2015. Independent directors constitute more than 50% of the total strength of board with one independent woman director on board. During the year, the company has appropriately held meetings of independent directors', audit committee, risk management committee, stakeholder relationship committee, nomination and remuneration committee among others as applicable. During the year, the company received 6 complaints from shareholder which were resolved amicably.

*MIDC - Maharashtra Industrial Development Corporation; GIDC - Gujarat Industrial Development Corporation; TTCWMA - Trans Thane Creek Waste Management Association

Applicable criteria

CARE's policy on default recognition
Rating Methodology - Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Criteria on assigning 'Rating Outlook' and 'Credit Watch' to ratings
Rating Methodology - Short term instruments
Rating Methodology - Manufacturing companies

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Specialty Chemicals

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 June 30, 2023, the promoter group held 33.84% 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/antioxidants and speciality chemicals. The products find application in industries, including 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 tonnes per annum as on March 31, 2023. NOCIL also exports to around 40 countries across the world with export sales contributing to around 30% of its total revenue in FY23.

Brief Financials (₹ crore) - Consolidated	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	1,568.44	1,615.15	396.67
PBILDT	284.88	251.47	60.47
PAT	176.11	149.15	34.30
Overall gearing (times)	0.05	0.02	NA
Interest coverage (times)	261.36	209.56	159.13

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results 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 facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated: Please refer Annexure-4

Lender details: Please refer Annexure-5

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long term	-	-	-	-	250.00	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	350.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Non-fund-based - ST-BG/LC	ST	350.00	CARE A1+	-	1)CARE A1+ (30-Aug-22)	1)CARE A1+ (04-Jan-22)	1)CARE A1+ (05-Jan-21)
2	Fund-based-Long term	LT	250.00	CARE AA; Stable	-	1)CARE AA; Stable (30-Aug-22)	1)CARE AA; Stable (04-Jan-22)	1)CARE AA; Stable (05-Jan-21)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated facilities: Not applicable.

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Note on the complexity levels of the rated instruments: CARE Ratings 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 us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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