

Apcotex Industries Limited

June 21, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE A+; Stable (Single A Plus; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A1+ (A One Plus) and Withdrawn
Total Bank Facilities	0.00 (Rs. Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers:

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE A+; Stable/CARE A1+' [Single A; Outlook: Stable/ A One Plus] assigned to the bank facilities of Apcotex Industries Limited (AIL) with immediate effect. The above action has been taken at the request of AIL and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters in chemical business and demonstrated track record of achieving growth in income via organic and inorganic means

AIL is headed by Mr. Atul Choksey, former managing director of Asian Paints, who has more than four decades of experience in the paints and chemicals industry. The current Managing Director of the company - Mr. Abhiraj Choksey and other management team members, who are experts in the field of chemicals, bring valuable experience to the company. AIL pioneered the manufacturing of vinyl pyridine latex and has gradually expanded its product portfolio to include a variety of synthetic rubbers and synthetic latexes which has enabled it to sustain growth in the past. In FY17, AIL acquired OMNOVA Solutions Private Limited (OSPL), the only manufacturer of NBR in India. In order to sustain growth going forward, AIL has added another product line viz. Carboxylated Nitrile Latex (XNBR), which is used in manufacturing of hand gloves and has great export potential.

Diversified clientele with presence in both domestic and export markets

AIL caters to both domestic and export markets with export sales accounting for 10%-15% of overall sales. It exports to 35-40 countries across the industry segments. It has a diversified and reputed client base with both contractual orders (written or verbal) and spot orders. The client contracts specify monthly or bi-monthly quantities to be dispatched with built in price variation clause. Thus, fluctuations if any in either raw material prices or exchange rates get passed on to the clients albeit with some lag.

Improved operating performance in FY21

AIL reported YoY growth of 9% in TOI in FY21 supported by improved demand across end user industries. Further, there was reduced dumping of NBR in the domestic market in FY21 as compared to FY20 which aided in increase in revenue from this segment. During the year, it also increased the capacity for manufacturing of NXBR latex and achieved 100% capacity utilization for the same on the back of healthy demand from gloves manufacturers.

Operating profitability also improved from 7.83% in FY20 to 13.72% in FY21 on account of better absorption of fixed costs as capacity utilization levels improved, better procurement of raw materials and implementation of cost saving measures during the year. CARE notes that increased dumping of NBR at uncompetitive rates from countries such as South Korea, Russia, Japan etc. had prompted AIL to apply for imposition of anti-dumping duty against such dumping imported NBR. However, the Government is yet to arrive at a decision on the imposition of ADD and the amount of duty and the period for which it shall be imposed shall remain key rating sensitivities.

Leverage and debt coverage continue to remain comfortable as on Mar 31, 2021; albeit same may get impacted if debt is availed for the upcoming capex

Low levels of long term debt coupled with low utilization of working capital borrowing has kept the overall gearing at comfortable levels in the past and as on Mar. 31, 2021. As a consequence to low debt, low interest expense interest coverage indicator also remains comfortable.

AIL is undertaking capex of Rs.100 crore towards setting up of a plant for manufacturing of XNBR latex for gloves. The project is at a nascent stage and the company is yet to finalize the funding break-up for the same. However, CARE notes that additional debt if availed to fund this capex could adversely impact the overall gearing and debt coverage indicators going forward.

Key Rating Weaknesses

Intense competition from imports

AIL faces competition primarily from imports across all the products manufactured by it. In case of NBR, AIL is the only domestic manufacturer, however, around 65% of the domestic demand is met through imports. While AIL's prices are kept under check on account of presence of significant imports in this segment, the customers prefer buying from AIL rather than importing on account of saving on forex fluctuations and low inventory requirement as transit time is less. Thus, despite having dominant market position, AIL's pricing power remains capped. The same was witnessed in FY20, wherein because of dumping of NBR by South Korean, European and Japanese players, AIL's NBR volumes were severely impacted.

Susceptibility of its operating profit margin to volatility in key raw material prices (which are derivatives of crude)

Nearly 60%-70% of AIL's operating cost comprises of raw material, mainly Butadiene, Styrene and Acrylonitrile. The raw materials are petroleum derivatives and hence their prices vary with crude prices. AIL procures Butadiene from ONGC Petro Additions Ltd. (OPAL) and Indian Oil Corporation Limited (IOCL) and occasionally from Reliance Industries Limited (RIL). Styrene and Acrylonitrile are entirely imported as they are not manufactured domestically. The company follows flexi inventory policy for the domestically sourced raw materials and typically maintains inventory of 20-25 days. However, for the imported materials, purchases are made in bulk on account of high transit time involved and as such it remains exposed to raw material price fluctuations to the extent of inventory maintained by it. Material cost is reset on a monthly basis by its suppliers depending on global price trends and AIL resets its product price immediately however, there are some contracts which are monthly or bi-monthly, so the raw material price change gets passed onto the customers with a lag.

Analytical approach: Standalone

Applicable criteria

[Policy on Withdrawal of ratings](#)

[Rating methodology for manufacturing companies](#)

[Criteria on assigning Outlook to Credit Rating](#)

[Criteria for Short Term Instruments](#)

[CARE's default recognition policy](#)

[Financial ratios – Non- Financial Sector](#)

[Liquidity analysis of non- financial sector companies](#)

About the Company

Incorporated in 1980, Apcotex Industries Limited (AIL) started as a division of Asian Paints, manufacturing synthetic latex and was later spun off as a separate company under the leadership of Mr. Atul Choksey, former managing director of Asian Paints. In 2016, it acquired Omnova Solutions Private Limited (OSPL), the only producer of NBR in India and from FY17 onwards started production of NBR from its Valia Plant (manufacturing unit of OSPL). Given alongside is the timeline progression of AIL. AIL is engaged in the production of synthetic rubber (Nitrile Butadiene Rubber (NBR) & High Styrene Rubber (HSR)) and synthetic latex (Nitrile Latex, VP latex, Acrylic latex, Styrene Butadiene Latex). The various grades of synthetic rubber find application in products such as automotive components, hoses, gaskets, rice de-husking rollers, printing and industrial rollers, friction materials, belting and footwear. AIL's range of latexes are used for paper / paper board coating, carpet backing, tyre cord dipping, construction etc. AIL has two manufacturing facilities at Taloja, Maharashtra and Valia, Gujarat.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	500.19	547.12
PBILDT	38.75	75.06
PAT	16.63	44.16
Overall gearing (times)	0.20	0.04
Interest coverage (times)	16.04	19.70

A: Audited; UA: Unaudited; Financials have been classified as per CARE's standards

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - ST-SLC-WC	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Proposed non fund based limits	-	-	-	0.00	Withdrawn

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	-	-	-	1)CARE A+; Stable (06-Oct-20)	1)CARE AA-; Stable (02-Aug-19)	-
2.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A+; Stable (06-Oct-20)	1)CARE AA-; Stable (02-Aug-19)	-
3.	Fund-based - ST-SLC-WC	ST	-	-	-	1)CARE A1+ (06-Oct-20)	1)CARE A1+ (02-Aug-19)	-
4.	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A1+ (06-Oct-20)	1)CARE A1+ (02-Aug-19)	-
5.	Non-fund-based - ST-Proposed non fund based limits	ST	-	-	-	1)CARE A1+ (06-Oct-20)	1)CARE A1+ (02-Aug-19)	-

Annexure 3: Complexity level of various instruments rated for Apcotex Industries Limited

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-SLC-WC	Simple
4.	Non-fund-based - ST-BG/LC	Simple
5.	Non-fund-based - ST-Proposed non fund based limits	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.

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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.

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