Indian Synthetic Rubber Private Limited

November 28, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	250.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	100.00	CARE A1+ (A One Plus)	Reaffirmed
Short Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**350.00** **(₹ Three Hundred Fifty Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Indian Synthetic Rubber Private Limited (ISRPL) continue to derive strength from ISRPL's strong parentage by virtue of an equal joint venture (JV) between Indian Oil Corporation Limited (IOCL) and Taiwan based TSRC corporation (technology partner) with a track record of operating similar projects, operational synergies with its joint venture partners and high entry barriers with respect to raw material availability and technology. The ratings further derive strength from robust operational performance marked by healthy capacity utilization and healthy sales realizations leading to high profitability and improvement in financial risk profile characterized by consistent debt reduction including prepayment of debt during FY22 (refers to the period from April 01 to March 31), adequate raw material arrangements with IOCL, favorable demand-supply scenario of synthetic rubber and the company's reputed and diversified client base. However, the ratings are constrained by the substantial reliance on the prospects of automobile sector, and the company's exposure to raw material and exchange rate fluctuation risk.

CARE has withdrawn the outstanding rating of CARE A1+ (A One Plus) assigned to the short-term bank facilities of ISRPL with immediate effect. The above action has been taken at the request of the company and written email communication from lender verifying that the same facilities rated by CARE have been surrendered.

Rating sensitivities

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

- Significant growth in scale of operations with sustained profitability at current levels.
- Improvement in capital structure of the company with overall gearing below 0.30x on a sustained basis.

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

- Decline in scale of operations with ROCE below 13% on a sustained basis.
- Change in management or effective control of promoter group.
- Any large debt-funded capex which may adversely affect the overall gearing of the company above 1.50x.

Detailed description of the key rating drivers

Key rating strengths

Improvement in financial risk profile: The overall gearing of the company improved from 1.73x as on March 31, 2021 to 0.53x as on March 31, 2022 due to accretion of profits to net-worth, pre-payment of term loan, and lower working capital borrowings outstanding as on balance sheet date. The company was scheduled to repay Rs.22.17 crore in FY22 but prepaid its term loan obligation to the tune of Rs.167.42 crore from cash accruals generated in FY22 which has resulted in nil term loan obligation in FY23. The debt coverage indicators such as the PBILDT interest coverage ratio and total debt/gross cash accruals ratio improved to 15.36x (PY: 9.95x) and 0.84x (PY: 2.51x) respectively in FY22 owing to improvement in the scale of operations and reduction in total debt.

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

Improvement in scale of operations albeit moderation in profitability margins: The total operating income of the company grew by ~51% to Rs.1690.61 crore in FY22 (PY: Rs.1118.42 crore) on account of ~45% increase in sales realization price of synthetic rubber driven by higher demand. The PBILDT margin of the company deteriorated slightly to 24.25% in FY22 (PY: 26.88%) primarily on account of increase in cost of raw material (mainly butadiene and styrene) as a percentage of total operating income. However, the PAT margin of the company declined substantially to 14.01% in FY22 (PY: 21.32%) primarily on account of deferred tax to the tune of Rs.101.91 crore reported by ISRPL in FY22 (PY: -Rs.16.73 crore).
The total operating income of the company grew marginally by ~7% to Rs.972.34 crore in H1FY23 (refers to the period from April 01 to September 30) (PY: Rs.911.82 crore). However, the PBILDT margin of the company although high, declined to 17.89% (PY: 31.08%) primarily on account of various reasons including rise in raw material prices (styrene and butadiene) leading to increase in raw material cost and increase in power and fuel cost due to rise in RLNG (re-gasified liquefied natural gas) prices. Going forward, CARE expects the PBILDT margin of the company to decline and remain in the range of ~13%-14% which is the normalized PBILDT margin owing to fluctuation in the raw material prices.

Strong promoter group with an established track record of executing similar projects: ISRPL is promoted by IOCL (Indian Oil Corporation Limited) (50% stake) and TSRC Corporation (formerly known as Taiwan Synthetic Rubber Corporation, 50% stake). These two promoter companies have a long track record of operations in similar line of business. IOCL is India's premier oil refining company, controlled by the Government of India (GoI) (with a 51.50% stake as on March 31, 2022) with business interests across the hydrocarbon value chain. TSRC Corporation, with over 30 years of experience in the industry, produces various grades of commodity and specialty products in the synthetic rubber (SR) industry. It is a leading SR producer in Asia Pacific. TSRC's annual output of synthetic rubber is around 5,28,000 metric tons (MT) for CY20 (refers to the period from January 01 to December 31). During CY21 (refers to the period from January 01 to December 31), TSRC reported a consolidated total income of ~Rs.8,361 crore.

Experienced and professional management team: The management team of the company has a long experience in petrochemical and rubber industry. Mr. Parmanand Goyal, Chairman, has been associated with the company through IOCL since 1990 and has over 32 years of experience in the field of corporate finance, risk management, and investment management. Mr. Bhavesh Pande, Managing Director, is a B.E Mechanical from MNIT, Jaipur & PGDM from MDI, Gurgaon. He has an experience of more than two decades in the Marketing Division of IOCL.

Synergies with the joint venture partners; strategic importance to IOCL: ISRPL's project provides forward integration to the butadiene stream of IOCL's Panipat Naphtha Cracker Plant. In order to produce butadiene, IOCL had invested approximately Rs.350 crore in the butadiene extraction plant at Panipat, thereby making ISRPL of strategic importance to IOCL. Furthermore, since the facility is located adjacent to ISRPL's plant, it also enhances synergies by sharing critical utilities like steam, power and raw water necessary for operations. In return, ISRPL is assured of regular supply of butadiene which is the primary raw material for the plant. ISRPL facilities are designed based on the technology for styrene butadiene rubber (SBR) made available by TSRC exclusively and irrevocably to ISRPL. These includes technology/operational know how, latest equipment, control systems & product handling systems, etc. The technology for SBR is closely guarded and ISRPL is able to use the technology by virtue of the JV.

Reputed and diversified clientele; albeit dependence on automobile sector: ISRPL has leading Indian companies as customers including MRF Limited (rated CARE AAA, Stable/CARE A1+), Apollo Tyres Limited, CEAT Tyres (CARE AA, Stable/CARE A1+), Goodyear India Limited, etc. Moreover, while the customer base is concentrated in the auto components sector (comprising 80-90% of operating income), it is diversified within customers with no single customer contributing more than 30% to operating income in FY21. The top 10 customers contributed ~92% of the total sales during FY22 (PY: ~88%).

High entry barriers in the Synthetic Rubber industry in terms of raw material availability and technology: The SR industry is characterized by high entry barriers such as technology sharing, raw material procurement and capital intensity. Technology of SR is available with only a few large global players, TSRC being among the leading suppliers of such technology. Furthermore, the major raw material for SBR is butadiene, which is processed through a naphtha cracker. Setting up a naphtha cracker requires huge capex and thus creates a huge entry barrier. ISRPL has an advantage in terms of its location, which is adjacent to the IOCL's Panipat refinery.

Favorable SR demand supply scenario: Over the last decade the consumption of SR in India has witnessed significant growth owing to rising demand from automobile sector, particularly in tyre manufacturing, as it increases the strength, abrasion resistance and other mechanical properties of tyres. However, due to lower domestic production of SR, there exists a considerable gap in demand-supply in the country which is primarily fulfilled by imports. Domestic Production of synthetic rubber stood at 4.79 lakh tonne in CY21 against which the consumption was 7.48 lakh tonne in CY21 leading to a shortfall of 2.69 lakh tonne which was met by imports.

Key rating weaknesses

Substantial reliance on prospects of automobile sector: Majority of ISRPL's revenue is generated from the automobile sector which is highly volatile. However, subsequent to commencement of its operations in February 2014, the company has been ramping up its production which increased from 24,096 tonne (utilization: 20%) in FY15 to 1,18,601 (utilization: 99%) in FY22. Further, tyre demand (end-product of e-SBR) has been relatively more resilient compared to other auto components as the replacement demand in the tyre industry insulates it from the volatile automobile industry to an extent.

Raw material and foreign exchange risk: Nearly 60%-70% of ISRPL's total cost comprises of raw material, mainly butadiene and styrene. Since both the materials are petroleum derivatives, their prices vary largely with crude prices. ISRPL procures butadiene from IOCL and prices are fixed monthly on margin sharing basis. The rate of final product is revised every month based on international prices. However, despite no benefit in prices, the customers buy SBR from ISRPL owing to the timeliness of delivery which takes 2-3 months in case of import but less than 15 days in case of domestic purchase. ISRPL procures butadiene (constituting ~69% of the total raw material cost) from IOCL and imports Styrene (constituting ~23% of the total raw material cost). The company remains exposed to forex risk as almost 100% of company's total revenue is from domestic sales. Further, the company is exposed to forex fluctuations pertaining to interest and debt repayments for the USD-denominated ECB loans (Rs.264.93 crore as on March 31, 2022) which is currently not hedged. ISRPL reported loss of Rs.0.39 crore due to foreign currency fluctuation in FY22 (PY: gain of Rs.16.38 crore).

Industry Prospects: The demand outlook of tyre industry remains favourable as the threat of pandemic is ebbing. The tyre industry is seeing a revival in capex spend for capacity additions. The proposed capex by the companies is estimated at more than Rs. 20,000 crore over the next three years. All the major players including Ceat, Apollo, Balkrishna Tyres, and JK Tyre are confident that the export market still remains very buoyant. However, despite huge international demand, achieving the same quantum of exports growth is a bit doubtful in the ongoing financial year due to constrains in capacity.

Liquidity: Adequate – Liquidity position of the company is adequate as reflected by nil term loan repayment in FY23 against projected gross cash accruals to the tune of Rs.169.37 crore. Further, the company has free cash and bank balance to the tune of Rs.180.09 core as on September 30, 2022. The average utilization of working capital borrowings stood low at 2.59% for the trailing 12 months ended September 30, 2022. The company is projected to incur capex of ~Rs.23.00 crore in FY23 and the same shall be entirely funded from internal accruals.

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
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company
ISRPL was formed as a tripartite joint venture (JV) between Indian Oil Corporation Ltd, Trimurti Holding Corporation (THC; a 100% subsidiary of Taiwan-based TSRC Corporation) and Marubeni Corporation, Japan in the ratio of 50:34:16, to set up an Emulsion Polymerized Styrene-Butadiene Rubber (e-SBR) plant at Panipat, Haryana. However, with effect from April 10, 2018, Marubeni Corporation exited from the JV. Revised JV agreement has been signed between IOCL and TSRC Corporation in ratio of 50:50. ISRPL constructed India's first e-SBR plant with production capacity of 120,000 tonnes per annum (TPA) and the commercial operations were started from February 04, 2014.

Brief Financials (₹ crore)	FY21(A)	FY22 (A)	H1FY23 (P)
Total operating income	1,118.42	1,690.61	972.34
PBILDT	300.58	409.98	173.91
PAT	238.43	236.91	105.17
Overall gearing (times)	1.73	0.53	0.60
Interest coverage (times)	9.95	15.36	12.58

A: Audited, P: Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	250.00	CARE A+; Stable
Fund-based - ST-Term loan		-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC		-	-	-	100.00	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - ST-Term loan	ST	-	-	-	1)CARE A1+ (19-Nov-21) 2)CARE A1 (06-Oct-21)	1)CARE A1 (05-Nov-20)	1)CARE A1 (04-Oct-19)
2	Fund-based - LT-Cash Credit	LT	250.00	CARE A+; Stable	-	1)CARE A+; Stable (19-Nov-21) 2)CARE A+; Stable (06-Oct-21)	1)CARE A; Stable (05-Nov-20)	1)CARE A; Stable (04-Oct-19)
3	Non-fund-based - ST-BG/LC	ST	100.00	CARE A1+	-	1)CARE A1+ (19-Nov-21) 2)CARE A1 (06-Oct-21)	1)CARE A1 (05-Nov-20)	1)CARE A1 (04-Oct-19)

*Long term/Short term.

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

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Term loan	Simple
3	Non-fund-based - ST-BG/LC	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 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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