NOCIL Limited

August 30, 2022

Ratings

Facilities	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	150.00 (enhanced from 100.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term bank facilities	350.00 (enhanced from 100.00)	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**500.00 (₹ Five hundred crore only)**		

Details of facilities in Annexure-1

Detailed 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 also factor in the improvement in its operating profitability during FY22 (refers to the period from April 1 to March 31), along with its comfortable capital structure, strong debt coverage and liquidity indicators. The ratings take cognisance of the stabilisation and ramp-up of operations from its recently completed capacity expansion at Dahej (Gujarat).
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

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

- Substantial increase in the 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 – 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.
- Significant moderation in Total Debt / PBILDT on a sustained basis
- 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.

'China plus one' sourcing strategy being adopted by global tyre majors augurs well for NOCIL: 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 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, which has resulted in significant growth in its sales volume during FY22 and Q1FY23.

Increase in sales volume and profitability margins in FY22 as well as Q1FY23: The total operating income (TOI) of NOCIL improved significantly during FY22 on y-o-y basis to ₹1,568 crore driven by 16% growth registered in its sales volume over FY21. The pick-up in sales volume was backed by uptick in the 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. Furthermore, its PBILDT margin increased by 411 bps on y-o-y basis to 18.16% during FY22 owing to timely price revisions for its finished products, favourable product mix having higher margins and benefits of operating leverage due to improved capacity utilization. During Q1FY23, the company achieved its highest ever quarterly sales volume as well as revenue. The company registered a volume growth of 17% during the quarter led by improved demand from tyre companies in both OEM and replacement markets. The volume growth coupled with easing in supply chain issues resulted in quarterly revenue

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

of ₹509 crore, which was around 48% higher on a Y-O-Y basis. Also, its PBILDT margin continued to remain healthy at 20.16% during Q1FY23.

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 0.05x as on March 31, 2022. Accordingly, with generation of healthy cash accruals, debt coverage indicators remained strong with total debt/gross cash accruals (TDGCA) of 0.31x and PBILDT interest coverage of over 260x during FY22. The company has recently enhanced its working capital limits in line with the increasing scale of operations.

Gradual ramp-up of operations from its expanded capacity: NOCIL undertook capex of around ₹475 crore in two phases – Phase-1 with an estimated cost of ₹170 crore and Phase-2 with an estimated cost of ₹305 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 had been funded by internal accruals. Currently, NOCIL is operating at around 75% capacity utilisation levels as indicated by the company's management which is expected to improve going forward. Accordingly, its ROCE, which had moderated over the last couple of years, stood improved to 17.19% during FY22.

Liquidity: Strong

The liquidity of NOCIL is strong marked by healthy cash accruals against nil term debt repayment obligations. With an overall gearing of 0.05x as on March 31, 2022, 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 2% over the trailing 12 months ended May 2022. 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 3.24x as on March 31, 2022.

Key rating 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 auto sector, which had experienced a recessionary situation from October 2018 and further setbacks during the initial months of COVID-19-led pandemic, had resulted in moderation in the TOI and profitability of NOCIL during the corresponding years. However, recovery of the automotive sector led by pick-up in demand augurs well for players like NOCIL in the 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. 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; however, the same was discontinued with effect from July 2019. 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. 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 to its customers with some time-lag leading to improved operating profitability in FY22.

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.

Applicable criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-financial sector
Rating Methodology: Consolidation
Rating Methodology-Manufacturing Companies
Financial ratios-Non- Financial Sector

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 June 30, 2022, the promoter group held 33.85% 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, 2022. NOCIL also exports to around 40 countries across the world with export sales contributing to around 36% of its total revenue in FY22.

Brief Financials (₹ crore)-Consolidated	FY21 (A)#	FY22 (A)	Q1FY23 (UA)
Total operating income	922.68	1568.44	508.90
PBILDT	129.64	284.88	102.60
PAT	88.41	176.11	66.48
Overall gearing (times)	0.04	0.05	NA
Interest coverage (times)	133.65	261.36	366.43

A: Audited; UA: Unaudited; NA: Not available; #restated in line with FY22 results.
Financials are classified as per CARE Ratings' standards.

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 facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-BG/LC		-	-	-	350.00	CARE A1+
Fund-based-Long term		-	-	-	150.00	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 (₹ 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	Non-fund-based - ST-BG/LC	ST	350.00	CARE A1+	-	1)CARE A1+ (04-Jan-22)	1)CARE A1+ (05-Jan-21)	1)CARE A1+ (09-Mar-20)
2	Fund-based-Long term	LT	150.00	CARE AA; Stable	-	1)CARE AA; Stable (04-Jan-22)	1)CARE AA; Stable (05-Jan-21)	1)CARE AA; Stable (09-Mar-20)

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 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.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Hardik Shah
Phone: +91-79-4026 5620
E-mail: hardik.shah@careedge.in

Relationship contact
Name: Saikat Roy
Phone: +91-22-6754 3404
E-mail: saikat.roy@careedge.in

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.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**