

APM Industries Limited

March 16, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term bank facilities	56.10	CARE BBB; Stable (Triple B ; Outlook: Stable)	Reaffirmed
Total Facilities	56.10 (Rs. Fifty Six crore and ten lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of APM Industries Limited (APM) continue to derive strength from the experienced management, established relationship with the customers and suppliers, comfortable gearing and coverage ratios. However, the ratings are constrained by moderate scale of operations and volatility in the raw material prices, which are dependent on crude oil prices. The rating also takes into cognizance of the declining profitability margin since last three years on account of inability to pass on the raw material price variations.

Going forward, profitable scale-up of operations, maintaining gearing levels and effective working capital management shall be the key rating sensitivities.

Positive Sensitivities:

- Sustained Improvement in PBILDT margins to more than 10%.
- Sustained improvement in turnover beyond Rs. 350 crore

Negative Sensitivities:

- Moderation of PBILDT margins below 5%.
- Increase in overall gearing ratio above 1.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters

The company was incorporated in 1973 by Mr. R.K. Rajgarhia, who is currently the Chairman of the company and has a vast experience of more than 4 decades in the textile industry. The company has a team of trained and experienced personnel who have immense knowledge about the textile industry.

Long track record and established relationship with clients and suppliers

The company has been in this line of business for over 40 years and has created established relations with the suppliers; domestic and overseas buyers. APM supplies yarn to many well-known domestic companies and traders. Further, the customer base is diversified with top ten customers contributed only 37.2% to net sales of APM during FY19.

Financial risk profile marked by low gearing, comfortable coverage ratios and strong liquidity position

The Company witnessed slight moderation in the total operating income which stood at around Rs 273.54 crore in FY19 vis-à-vis Rs 279.11 crore in FY18 mainly on account of reduction in sales volume of Yarn from 1.75 crore Kg in FY18 to 1.67 crore Kg in FY19.

The PBILDT and PAT margins stood at 6.53% and 2.68% respectively. (PY: 7.81% and 4.50%). The company couldn't pass on increase in raw material prices owing to adverse market conditions.

Also, the capital structure of the company remained comfortable, however moderated, with low gearing levels. The overall gearing stood at 0.47 times as on March 31, 2019 (PY: 0.25 times) on account of reduction in total reserves after demerger.

During 9MFY20, the total operating income of the company was Rs. 214.48 crore as against Rs. 212.89 crore in 9mFY19. The PBILDT margin for 9mFY20 was 5.81% (9mFY19: 5.75%).

Key Rating Weaknesses

Volatility in raw material prices: The main raw material is recycled Polyester Fiber (RPSF: ~77% of raw material) which is procured domestically. PSF is a derivative of crude oil thus its price along with price of RPSF is dependent on movement of crude oil prices. Hence, any volatility in the raw material prices may affect the company's margins.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Recent drop in crude oil prices is expected to impact the prices of products, resulting into lower revenue growth. Furthermore, sustained drop in oil prices could delay any meaningful recovery in the industry in the near future as customers will delays purchases in anticipation of further fall.

Liquidity: Adequate Liquidity profile of the company moderated as on March 31, 2019 following the approval of demerger by National Company Law Tribunal (NCLT). The investments amounting to Rs. 72.83 crore (including Rs 2 crore investment in AFL) pursuant to the scheme is appropriated and adjusted against reserves pursuant to the scheme. However, Liquidity remains adequate as indicated by current ratio of 1.21x as on Mar. 31, 2019 (PY: 1.47x). Further, the working capital utilization remained at 74.2% for the 12 months ended Feb 29, 2020. The operating cycle of the company remained stable at 79 days marked by 63 inventory days, 38 debtor days and 22 creditor days in FY19. Further, free cash & bank balance was Rs. 0.10 crore on Mar 31, 2019 as against Rs.0.38 crore at Mar 31, 2018.

Analytical approach: Standalone

Applicable Criteria

[CARE's criteria on assigning outlook to credit ratings](#)

[CARE's policy on Default recognition](#)

[CARE's criteria on Short term ratings](#)

[CARE's methodology for manufacturing companies](#)

[Financial Ratios-Non Financial sector](#)

About the Company

APM was promoted as Ajay Paper Mills Pvt Ltd in Sept. 1973 by taking over the partnership business of M/s. Prayagdas Kanhaiyalal & Co. The company had two divisions viz. Paper and Textile. The paper division was closed down in 1987. The name of the company was changed to the present nomenclature in April 1990. APM is promoted by Mr. R.K. Rajgarhia, who is the Chairman of the company.

The company is engaged in the manufacturing of synthetic blended yarn comprising polyester/viscose, polyester 100%, acrylic 100% and acrylic/polyester yarn with an installed capacity of 55,584 as on Dec 31, 2019. The company majorly caters to domestic market. During FY19, the company diversified its product with expansion into Sewing thread dyeing and cone/tube winding machine with the capacity of 350 MTPA.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	279.11	273.54
PBILDT	21.80	17.87
PAT	12.55	7.34
Overall gearing (times)	0.25	0.47
Interest coverage (times)	5.34	4.14

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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-Long Term	-	-	-	30.00	CARE BBB; Stable
Term Loan-Long Term	-	-	Jul-21*	22.20	CARE BBB; Stable
Non-fund-based - LT-BG/LC	-	-	-	3.90	CARE BBB; Stable

*Multiple Maturity dates

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based-Short Term	ST	-	-	-	-	1)Withdrawn (29-Mar-18) 2)CARE A2 (17-Apr-17)	1)CARE A2 (13-Apr-16)
2.	Fund-based-Long Term	LT	30.00	CARE BBB; Stable	1)CARE BBB; Stable (03-Jul-19) 2)CARE BBB+ (Under Credit watch with Developing Implications) (13-Jun-19)	1)CARE BBB+; Stable (01-Mar-19)	1)CARE BBB+; Stable (29-Mar-18) 2)CARE BBB+; Stable (17-Apr-17)	1)CARE BBB+ (13-Apr-16)
3.	Term Loan-Long Term	LT	22.20	CARE BBB; Stable	1)CARE BBB; Stable (03-Jul-19) 2)CARE BBB+ (Under Credit watch with Developing Implications) (13-Jun-19)	1)CARE BBB+; Stable (01-Mar-19)	1)CARE BBB+; Stable (29-Mar-18) 2)CARE BBB+; Stable (17-Apr-17)	1)CARE BBB+ (13-Apr-16)
4.	Non-fund-based - LT-BG/LC	LT	3.90	CARE BBB; Stable	1)CARE BBB; Stable (03-Jul-19) 2)CARE BBB+ (Under Credit watch with Developing Implications) (13-Jun-19)	1)CARE BBB+; Stable (01-Mar-19)	1)CARE BBB+; Stable (29-Mar-18) 2)CARE BBB+; Stable (17-Apr-17)	1)CARE BBB+ (13-Apr-16)

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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