APM Industries Limited

July 03, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Remarks**
Long-term Bank Facilities	**59.21**	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Removed from credit watch; Revised from CARE BBB+ (Triple B Plus)**
Total Facilities	**59.21 (Rs. Fifty-Nine crore and twenty-one lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long term ratings of APM Industries Limited (APMIL) to CARE BBB; Stable and removal from credit watch takes into account moderation in financial risk profile of the company marked by declining cash accruals in Q4FY19 and liquidity owing to demerger of its finance division in APM Finvest Limited (AFL). The investments amounting to Rs 72.83 crore is appropriated and adjusted against reserves pursuant to the scheme. Furthermore, the rating remains exposed to moderate scale of operations in textile business and volatility in the raw material prices, which are dependent on crude oil prices.

However, the rating takes comfort from the experienced management team along with the established position of the company due to its long track record of operation. Post the demerger and apart from the loss of surplus liquid investments to AFL, the financial profile of the company is comfortable marked by low overall gearing.

Going forward, its ability to pass on any increase in the cost to the customers, maintain gearing levels and effective utilization of funds available would remain key rating sensitivities.

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 56 years 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 known domestic companies and traders. Further, the customer base is diversified with top five customers contributed only 16.51% to the total income of APM during FY18 (PY: 21.6%, FY19 data not available).

Financial risk profile marked by low gearing albeit reduction in reserves after demerger: The Company witnessed slight moderation in the total operating income which stood at around Rs 274.76 crore in FY19 (A) vis-à-vis Rs 279.11 crore in FY18 (A). The PBILDT and PAT margins stood at 6.41% and 2.61% respectively. (PY: 7.81% and 4.41%). The company couldn't pass on increase in raw material prices owing to adverse market conditions. Furthermore, the power cost of the company increased in recent years for which company has installed solar power plant of 1 MW during FY18 and the same is expected to reduce power cost by around Rs 1.5 crore annually.

Also, the capital structure of the company remained comfortable, however moderated, with low gearing levels. The overall gearing stood at 0.44 times as on March 31, 2019 (PY: 0.25 times) on account of reduction in total reserves after demerger.

Key Rating Weaknesses

Demerger of AFL from APMIL: APMIL was the holding company of APM Finvest Limited (AFL- unlisted). The National Company Law Tribunal (NCLT) approved the demerger as per the Scheme of Arrangement, APMIL and AFL. Pursuant to it, the investments amounting to Rs. 72.83 crore (including Rs 2 crore investment in AFL) have been transferred to AFL and is appropriated and adjusted against reserves. As consideration for the transfer and vesting of the Finance and Investment undertaking, AFL has issued 1 equity share of face value of Rs 2/— at par to the shareholders of APMIL for every 1 share of Rs 2/- held by them.

Volatility in raw material prices: The main raw material is PSF (~76% of raw material) is a derivative of crude oil and its price is dependent on movement of crude oil prices. Furthermore, low bargaining power with large raw material suppliers affects profitability. Hence, any volatility in the raw material prices may affect the company's margins.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Additional Capex and means of Finance: During FY19, the company availed a term loan amounting Rs 6.90 crore for additional capex amounting to Rs 11.87 crore which included 3 imported Auto corner machine and replacement of coal fired boiler to gas fired boiler. The same is expected to improve quality and further reduce cost of production of the company. The remaining amount to the extent of Rs 4.8 crore is funded via internal accruals.

Industry scenario

Man-Made Fibres (MMF) industry has witnessed a lean phase for the last 5 fiscals. The factors including sluggish demand, sharp rise in imports, competition from cotton yarn, fall in realization and production owing to demonetization weighed on the industry. However, the industry is expected to improve going forward. The GST rates coming down to 12% from earlier 18% and increase in custom duties on various synthetic yarns and fibres, the industry is expected to remain competitive in the domestic as well as the international markets. Furthermore, Crude oil prices and cotton prices will affect the demand for respective fibre in the world.

Polyester consumption is expected to pick up gradually with increase in demand for apparels, home textiles and technical textiles as the macro economic scenario recovers. The growth in apparels and home textile segments will be supported by the factors like rise in disposable income, growing consumer class, rising urbanization, increasing retail penetration and increased usage of plastic money etc. Furthermore, profitability of key players is expected to remain under pressure on account of volatile raw material prices and limited pricing flexibility of MMF players on account of commoditized, competitive and fragmented nature of the industry.

Liquidity: The 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. The company has cash and cash equivalents of around Rs 1.36 crore as on March 31, 2019 and repayment of term debt in FY20 amounts to around Rs 6 crore.

Also, the average working capital utilization was on a higher side during the Q4FY19 and stood at over 80% in March 2019. The increase in utilisation of working capital limits during Q4FY19 is on account of increase in unsold inventory of finished goods.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology for Manufacturing Companies
CARE's methodology for 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 mainly engaged in the manufacturing of synthetic blended yarn comprising polyester/viscose, polyester 100%, acrylic 100% and acrylic/viscose yarn with an installed capacity of 55,584 spindles as on Dec 31, 2018. The company majorly caters to domestic market (around 99% of its total revenue). During FY18, 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	274.76
PBILDT	21.80	18.85
PAT	12.55	8.17
Overall gearing (times)	0.25	0.44
Interest coverage (times)	5.34	4.32

A: Audited

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 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	-	-	April 2025	20.31	CARE BBB; Stable
Non-fund-based - LT-BG/LC	-	-	-	8.90	CARE BBB; Stable

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+ (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	20.31	CARE BBB; Stable	1)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	8.90	CARE BBB; Stable	1)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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