

APM Industries Limited

November 17, 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 reaffirmation of the ratings assigned to the bank facilities of APM Industries Limited (APMIL) continue to derive strength from the experienced management, established relationship with the customers and suppliers, comfortable gearing and coverage indicators. However, the ratings continue to remain constrained by moderate scale of operations, volatility in the raw material prices which are dependent on crude oil prices and fragmented nature of industry. The rating takes cognizance of the subdued income and profitability during H1FY21 (refers to the period April 01 to September 30) on account of disruption in operations due to outbreak of Covid-19.

Rating Sensitivities

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

- Growth in scale of operations with total operating income above Rs 350 crore and profitability margins above 10% on a sustained basis.
- Improvement in operating cycle to less than 30 days on a sustained basis.

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

- Deterioration in the capital structure with overall gearing ratio beyond 1.00x
- Reduction in PBILDT margin below 5.00% on a sustained basis.

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 5 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 45 years and has created established relations with the suppliers. APM supplies yarn to many well-known domestic companies and traders. Further, the customer base is diversified with top ten customers contributed close to 40% to net sales of APM during FY20.

Comfortable overall gearing and debt coverage indicators during FY21, though moderated during H1FY21

The Company witnessed slight moderation in the total operating income which stood at around Rs 269.92 crore in FY20 vis-à-vis Rs 273.54 crore in FY19 mainly on account of reduction in sales volume primarily on account of shutdown of plant during Covid-19 lockdown from March 24, 2020. The PBILDT and PAT margins stood at 6.72% and 2.66% respectively. (PY: 6.53% and 2.68%). The capital structure of the company remained comfortable with overall gearing of 0.40x as on March 31, 2020 which improved from 0.47x as on March 31, 2019 on account of reduced utilization of working capital limits. During H1FY21, the company reported subdued income of Rs. 93.14 crore as against Rs. 144.90 crore in H1FY20 which was majorly due to production lost during Covid-19 lockdown. Although Q1FY21 was subdued with income of Rs 25.80 crore and loss of Rs 2.63 crore, however, the company reported improvement in Q2FY21 with income and profit of Rs 67.34 crore and Rs 1.51 crore respectively.

Key Rating Weaknesses

Volatility in raw material prices:

The main raw material is Polyester Fiber (PSF: ~77% of raw material) which is procured domestically. PSF is a derivative of crude oil and its price is dependent on movement of crude oil prices. Furthermore, low bargaining power with large raw

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

material suppliers affects profitability. Hence, any volatility in the raw material prices may affect the company's margins. The 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 delay purchases in anticipation of further fall. However the company uses polyester staple fiber which is made from recycled PET bottles flakes having less volatility.

Fragmented nature of industry

APMIL operates in a cyclical and fragmented Man Made Fiber (MMF) industry marked by presence of various organized and unorganized and certain large players such as Sanathan Textiles Pvt. Ltd., Well, known Polyesters Ltd, Bhilosa Industries Pvt. Ltd, etc. Intense competition in the industry limits the pricing abilities of the players operating in the industry. Furthermore, a recent wave of capacity expansion carried out by certain players in the industry has put pressure on demand as well as margins.

Liquidity: Adequate

The company has adequate liquidity characterized by sufficient cushion in cash accruals vis-à-vis repayment obligations. The company generated gross cash accruals of ~Rs.11.66 crore during FY20 against which it has a repayment obligation of ~Rs.6.14 crore. APMIL has total sanctioned fund based limits of Rs.36 crore. The utilization of facility is around 72.70% for 12 month ending July 20. The current ratio and quick ratio stood at 1.35 times and 0.48 times respectively as on March 31, 2020. As on on Sept 30, 2020 the company has cash and equivalents amounting to Rs. 1.40 crore. As per RBI circular dated March 27, 2020 and May 23, 2020, companies opted for moratorium on their debt obligations for a period of 6 months from March 2020 to August 2020. However during August 2020, the company has repaid the loan installments on which the moratorium was taken.

Analytical approach: Standalone

Applicable Criteria

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

[CARE's Policy on Default Recognition](#)

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

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

[Rating Methodology for Manmade Yarn Manufacturing Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

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 CMD of the company.

The company is 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 as on Sept 30, 2020. The company majorly caters to domestic market. 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)	FY19 (A)	FY20 (A)
Total operating income	273.54	269.92
PBILDT	17.87	18.14
PAT	7.34	7.17
Overall gearing (times)	0.47	0.40
Interest coverage (times)	4.14	3.73

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

Complexity level of various instruments rated for this company: Annexure 3

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	-	-	July 2021	22.20	CARE BBB; Stable
Non-fund-based - LT-BG/LC	-	-	-	3.90	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based-Short Term	ST	-	-	-	-	-	1)Withdrawn (29-Mar-18) 2)CARE A2 (17-Apr-17)
2.	Fund-based-Long Term	LT	30.00	CARE BBB; Stable	-	1)CARE BBB; Stable (16-Mar-20) 2)CARE BBB; Stable (03-Jul-19) 3)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)
3.	Term Loan-Long Term	LT	22.20	CARE BBB; Stable	-	1)CARE BBB; Stable (16-Mar-20) 2)CARE BBB; Stable (03-Jul-19) 3)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)
4.	Non-fund-based - LT-BG/LC	LT	3.90	CARE BBB; Stable	-	1)CARE BBB; Stable (16-Mar-20) 2)CARE BBB; Stable (03-Jul-19) 3)CARE BBB+ (Under Credit watch with Developing Implications)	1)CARE BBB+; Stable (01-Mar-19)	1)CARE BBB+; Stable (29-Mar-18) 2)CARE BBB+; Stable (17-Apr-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
						(13-Jun-19)		

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based-Long Term	Simple
2.	Non-fund-based - LT-BG/LC	Simple
3.	Term Loan-Long Term	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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