Apcotex Industries Limited

August 02, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	100.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Assigned
Short term Bank Facilities	40.00	CARE A1+ (A One Plus)	Assigned
Total Facilities	140.00 (Rs. One hundred forty crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Apcotex Industries Limited (AIL), derive strength from the established track record of the promoters in the chemicals industry, proven by their ability to scale up the business through both organic and inorganic means, diverse product portfolio finding application across industries and long standing relation with diversified clientele. The ratings also favorably factor in the comfortable overall gearing, debt coverage and strong liquidity indicators marked by consistent cash generation, low utilization of working capital facilities on back of contracting operating cycle, and large investment balance. The ratings also takes cognizance of ongoing capex being by AIL towards debottlenecking of its operations, which are likely to bring cost efficiencies going forward and free up some capacity for its products.

The ratings are however, tempered by susceptibility of its profitability to fluctuations in key raw material prices as same are derivative of crude oil, mitigated to an extent by presence of price variation clause in client contracts and stiff competition from imports in the segments catered by it.

Going forward, the ability of AIL to operate its plants at optimum capacity utilization levels, while at the same time improving its operating profitability and effectively managing its working capital requirements shall be the key ratings sensitivities. Further, any large debt funded capex would be negative trigger for rating.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters in chemical business and demonstrated track record of achieving growth in income via organic and inorganic means

AIL is headed by Mr. Atul Choksey, former managing director of Asian Paints, who has more than four decades of experience in the paints and chemicals industry. The current Managing Director of the company - Mr. Abhiraj Choksey and other management team members, who are experts in the field of chemicals, bring valuable experience to the company.

AIL pioneered the manufacturing of vinyl pyridine latex and has gradually expanded its product portfolio to include a variety of synthetic rubbers and synthetic latexes which has enabled it to sustain growth in the past. In FY17, AIL acquired OMNOVA Solutions Private Limited (OSPL), the only manufacturer of NBR in India. NBR sales have registered double digit growth since commencement of operations and contributed to ~41% of the overall sales of the company in FY19. In order to sustain growth going forward, AIL has added another product line viz. carboxylated Nitrile Latex (XNBR), which is used in manufacturing of hand gloves and has great export potential.

Diversified clientele with presence in both domestic and export markets

AIL caters to both domestic and export markets with export sales accounting for 10%-20% of overall sales. It exports to 35-40 countries across the industry segments. It has a diversified and reputed client base with both contractual orders (written or verbal) and spot orders. The client contracts specify monthly or bi- monthly quantities to be dispatched with built in price variation clause. Thus, fluctuations if any in either raw material prices or exchange rates get passed on to the clients albeit with some lag. Moreover, the customer base is diversified with no single customer contributing more than 5% to operating income in FY19; the top 10 customers contributed ~28% of operating income during FY19 (PY: 28%).

Healthy growth in operating income fuelled by healthy sales realizations and growing sales volumes, particularly in the NBR segment

AIL reported a healthy CAGR of 16% in its total operating income during last five years. The growth was on account of growing sales volume coupled with improved product mix. AIL has a sizeable market position in the domestic market for its

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

products, with it being the only domestic producer of NBR. Increasing demand of NBR from the end user industries has fuelled volume growth in this segment. In the synthetic latex segment, AIL has witnessed strong growth in demand in the past from the paper and construction industries.

Comfortable gearing and debt coverage indicators

Low levels of long term debt coupled with low utilization of working capital borrowing has kept the overall gearing at comfortable levels in the past and as on March 31, 2019. As a consequence to low debt, low interest expense coupled with healthy operating profits has resulted in high interest coverage indicator with PBIDLT / Interest of 21.28x during FY19. AIL is undertaking debottlenecking and power generation capex of Rs.99 crore which is funded using debt of Rs.30 crore, dilution of investments and internal accruals. This capex is expected to be completed by the end of FY20 and is likely to result in cost efficiencies as well as freeing up of some capacity at its plants. Despite additional debt being availed by AIL, the leverage indicators are expected to remain comfortable going forward.

Key Rating Weaknesses

Susceptibility of its operating profit margin to volatility in key raw material prices (which are derivatives of crude)

Nearly 60%-70% of AIL's operating cost comprises of raw material, mainly Butadiene, Styrene and Acrylonitrile. The raw materials are petroleum derivatives and hence their prices vary with crude prices. AIL procures Butadiene from ONGC Petro Additions Ltd. (OPAL) and Indian Oil Corporation Limited (IOCL) and occasionally from Reliance Industries Limited (RIL). Styrene and Acrylonitrile are entirely imported as they are not manufactured domestically. The company follows flexi inventory policy for the domestically sourced raw materials and typically maintains inventory of 20-25 days. However, for the imported materials, purchases are made in bulk on account of high transit time involved and as such it remains exposed to raw material price fluctuations to the extent of inventory maintained by it. Material cost is reset on a monthly basis by its suppliers depending on global price trends and AIL resets its product price immediately however, there are some contracts which are monthly or bi- monthly, so the raw material price change gets passed onto the customers with a lag. During FY19, AIL reported marginal moderation in its PBILDT margin, primarily due to high volatility witnessed in one of its key raw material butadiene.

Intense competition primarily from imports

AIL faces competition primarily from imports across all the products manufactured by it. In case of NBR, AIL is the only domestic manufacturer, however, around 65% of the domestic demand is met through imports. While AIL's prices are kept under check on account of presence of significant imports in this segment, the customers prefer buying from AIL rather than importing on account of saving on forex fluctuations and low inventory requirement as transit time is less. In the synthetic latex segment, there a few domestic players as well competing with AIL in the industries catered to by it. Thus, despite having dominant market position, AIL's pricing power remains capped.

Liquidity

AIL has a strong liquidity indicators, marked by very low utilization of its working capital limits backed by a contracting operating cycle. AIL's operating cycle has contracted from 82 days in FY17 to 49 days in FY19 on account of efficient inventory management thus, resulting in a meager 6% utilization of working capital limits on an average in the last 12 months. Its, liquidity position is further supported by consistent cash accruals with low debt repayments and a healthy investment balance of Rs.73.28 crore as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
CARE's methodology for financial ratios (Non-Financial Sector)
Rating Methodology for manufacturing companies

About the Company

Incorporated in 1980, Apcotex Industries Limited (AIL) started as a division of Asian Paints, manufacturing synthetic latex and was later spun off as a separate company under the leadership of Mr. Atul Choksey, former managing director of Asian Paints. In 2016, it acquired Omnova Solutions Private Limited (OSPL), the only producer of NBR in India and from FY17 onwards started production of NBR from its Valia Plant (manufacturing unit of OSPL). Given alongside is the timeline progression of AIL.

AIL is engaged in the production of synthetic rubber (Nitrile Butadiene Rubber (NBR) & High Styrene Rubber (HSR)) and synthetic latex (Nitrile Latex, VP latex, Acrylic latex, Styrene Butadiene Latex). The various grades of synthetic rubber find application in products such as automotive components, hoses, gaskets, rice de-husking rollers, printing and industrial rollers, friction materials, belting and footwear. AIL's range of latexes are used for paper / paper board coating, carpet backing, tyre cord dipping, construction etc. AIL has two manufacturing facilities at Taloja, Maharashtra and Valia, Gujarat. The Taloja unit has an installed capacity to manufacture 10,000 MTPA of HSR and 55,000 MTPA of synthetic latex, while the Valia unit has an installed capacity of 6,300 MTPA of HSR, 17,575 MTPA of NBR and 1,000 MTPA of synthetic latex.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	528.34	630.64
PBILDT	67.92	74.47
PAT	38.64	46.60
Overall gearing (times)	0.07	0.01
Interest coverage (times)	24.74	21.28

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 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 – LT – Term Loan	-	-	-	30.00	CARE AA-; Stable
Fund based – LT – Cash Credit	-	-	-	70.00	CARE AA-; Stable
Fund based – ST – SLC	-	-	-	3.00	CARE A1+
Non- Fund based – ST – BG/LC	-	-	-	28.00	CARE A1+
Non Fund based – ST – Proposed	-	-	-	9.00	CARE A1+

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.	Fund-based - LT-Cash Credit	LT	70.00	CARE AA-; Stable	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	30.00	CARE AA-; Stable	-	-	-	-
3.	Fund-based - ST-SLC-WC	ST	3.00	CARE A1+	-	-	-	-
4.	Non-fund-based - ST-BG/LC	ST	28.00	CARE A1+	-	-	-	-
5.	Non-fund-based - ST-Proposed non fund based limits	ST	9.00	CARE A1+	-	-	-	-

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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