Apcotex Industries Limited

October 06, 2020

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Remarks
Long term Bank Facilities	100.00	CARE A+; Stable [Single A Plus; Outlook: Stable]	Revised from CARE AA-; Stable [Double A Minus; Outlook; Stable]
Short term Bank Facilities	40.00	CARE A1+ [A One Plus]	Reaffirmed
Total Facilities	**140.00 (Rs. One hundred forty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The revision in the long term rating assigned to the bank facilities of Apcotex Industries Limited (AIL), factors in significantly weak performance of the Nitrile Butadiene Rubber (NBR) segment in FY20 and in the current financial year (Q1FY21) on the back of slowdown in the auto industry translating into weak demand, elevated competition from imports on account of dumping of NBR by South Korea and Japan as China had imposed the antidumping duty. Rating also factors in the expansion in price differential for Butadiene (a key raw material) between Europe and Asia Pacific region especially in Q2FY20 and Q3FY20 leading to significant erosion in operating profit margins, as procurement prices for AIL are pegged to prices prevailing in Asia Pacific region. Although, the price differential of Butadiene corrected in Q4FY20, weak performance continued in Q1FY21 on the back of temporary shutdown of manufacturing facilities amid lockdown imposed to control the spread of CoVID-19 and weak demand from end user industries. Consequently, AIL had applied for imposition of anti-dumping duty against countries dumping NBR at abnormally lower prices in domestic market. However, pending completion of investigation the Government has imposed a temporary anti duping duty of $57/barrel which is valid till December 2020. CARE notes that with elevated dumping of imported NBR at prices below the cost of manufacturing of AIL, the profitability of AIL has now become dependent on external support extended by the Government.

The ratings also factors in the comfortable leverage and coverage indicators however, AIL is undertaking a capex of Rs.100 crore for setting up a 45,000 MTPA plant for the manufacture of XNBR latex to be used in the manufacture of synthetic rubber gloves. While the project is at a nascent stage and the funding break-up of the same has not yet finalized by the company, additional debt if availed by AIL to fund the project may adversely impact debt coverage indicators going forward, which remained at comfortable levels in FY20.

The ratings continue to 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 liquidity indicators marked by healthy cash generation in the past (although the same declined in FY20) low utilization of working capital facilities and large unencumbered liquid investment providing liquidity cushion.

The ratings are however, tempered by susceptibility of its profitability to fluctuations in key raw material prices as same are derivatives 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.

Rating Sensitivities

Positive factors:

- TOI income above Rs. 1,000 crore on a sustained basis
- PBILDT margin above 18% on a sustained basis
- Interest coverage improving above 15x on a sustained basis

Negative factors:

- PBILDT margin declining below 5% on a sustained basis
- Overall gearing increasing above 0.5x on a sustained basis

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

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. 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%-15% 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.

Despite of weak operating performance the leverage and debt coverage continue to remain comfortable as on Mar 31, 2020; albeit same may get impacted if debt is availed for the upcoming capex

Low levels of long term debt coupled with moderate utilization of working capital borrowing has kept the overall gearing at comfortable levels in the past and as on Mar. 31, 2020. As a consequence to low debt, low interest expense interest coverage indicator also remains comfortable although it has deteriorated in FY20 to 16.04x as compared to 21.28x in FY19 on account of decline in operating profitability.

AIL is undertaking capex of Rs.100 crore towards setting up of a plant for manufacturing of XNBR latex for gloves. The project is at a nascent stage and the company is yet to finalize the funding break-up for the same. However, CARE notes that additional debt if availed to fund this capex could adversely impact the overall gearing and debt coverage indicators going forward.

Key Rating Weaknesses

Significant decline in operating income and operating profitability in FY20

AIL reported decline in total operating income of 21% in FY20 on a YoY basis. The de- growth was on account of decline in both sales volumes and sales realisations in the HSR and NBR segments. Sales volumes declined in FY20 because of weak demand from end user industries such as automobiles, construction and footwear. HSR segment has been de- growing every year since the past two years as this product is primarily used in making cheap footwear where demand has seen a declining trend. NBR volumes declined due to reduced competitiveness in domestic and exports markets due to lower butadiene prices in Europe as compared to Asia Pacific in particular in the quarters Q2 and Q3 of FY20 and on the back of increased competition from imports especially on account of dumping from South Korea and Japan. While butadiene price differential has corrected in Q4FY20, the problem associated with dumping of NBR continues with the imported price being lower than the cost of manufacturing of AIL for NBR. Both these factors adversely impacted the operating profitability of AIL in FY20 which declined from 11.81% in FY19 to 7.755 in FY20. AIL had applied for imposition of anti –dumping duty against such dumping imported NBR however, pending completion of investigation the Government has imposed a temporary anti duping duty of $57/barrel which is valid till December 2020. CARE notes that with increased dumping of imported NBR at prices below the cost of manufacturing of AIL, the profitability of AIL has now become dependent on external support extended by the Government.

Performance in Q1FY21 was adversely impacted on account of lockdown imposed due to CoVID-19 which led to temporary suspension of operations and also reduced demand from end user industries. Revenue declined by 58% in Q1FY20 on a YoY basis on the back of 47% decline in sales volumes. Lower sales volumes led to the company reporting a PBILDT loss of Rs.2.43 crore and a net loss of Rs. 6.67 crore in Q1FY21.

Intense competition 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. Thus, despite having dominant market position, AIL's pricing power remains capped. The same was witnessed recently, wherein because of dumping of NBR by South Korean, European and Japanese players, AIL's NBR volumes were severely impacted.

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.

Liquidity: Strong
AIL's liquidity position is marked by deterioration in cash accruals from operations against low long term debt repayments. Its liquidity is however, supported by presence of unencumbered investments (as detailed above) and moderate utilization of working capital limits. Average utilization of working capital limits increased in the last two months of FY20 on account of delay in realization of debtors as well as presence of high cost unsold inventory towards March end on account to of the lockdown. Further, AIL has availed two moratoriums on its term loan under the CoVID relief package announced by RBI.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
CARE's policy on curing period
Criteria on liquidity analysis of non- financial sector entities

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.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	Q1FY21 (UA)
Total operating income	630.64	500.19	61.74
PBILDT	74.47	38.75	(2.43)
PAT	46.60	16.63	(6.67)
Overall gearing (times)	0.01	0.20	Not available
Interest coverage (times)	21.28	16.04	Not meaningful

A: Audited; UA: Unaudited; Financials have been classified as per CARE's standards

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	70.00	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	-	-	30.00	CARE A+; Stable
Fund-based - ST-SLC-WC	-	-	-	-	3.00	CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	28.00	CARE A1+
Non-fund-based - ST-Proposed limits	-	-	-	-	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 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.	Fund-based - LT-Cash Credit	LT	70.00	CARE A+; Stable	-	1)CARE AA-; Stable (02-Aug-19)	-	-
2.	Fund-based - LT-Term Loan	LT	30.00	CARE A+; Stable	-	1)CARE AA-; Stable (02-Aug-19)	-	-
3.	Fund-based - ST-SLC-WC	ST	3.00	CARE A1+	-	1)CARE A1+ (02-Aug-19)	-	-
4.	Non-fund-based - ST-BG/LC	ST	28.00	CARE A1+	-	1)CARE A1+ (02-Aug-19)	-	-
5.	Non-fund-based - ST-Proposed limits	ST	9.00	CARE A1+	-	1)CARE A1+ (02-Aug-19)	-	-

Annexure 3 Detailed explanation of covenants of the rated instruments/facilities: Not available

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-SLC-WC	Simple
4.	Non-fund-based - ST-BG/LC	Simple
5.	Non-fund-based - ST-Proposed non fund based limits	Simple

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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