Astral Poly Technik Limited

January 16, 2019

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	141.92	**CARE AA; Stable [Double A; Outlook : Stable]**	Assigned
Long Term / Short Term Bank Facilities	664.50	**CARE AA; Stable/ CARE A1+ [Double A; Outlook : Stable/ A One Plus]**	Assigned
Total	**806.42 (Rupees Eight Hundred Six crore and Forty Two lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Astral Poly Technik Ltd (APTL) derives strength from its established track record of operations in plumbing pipes & fittings business along with strong brand franchise of 'Astral' which is aided by its advertisement and sales promotion spending and complemented by its widespread distribution network which has led to continuous growth in its total operating income (TOI) with geographically diversified presence.

The ratings are further underpinned by its diversified product portfolio in the pipes and adhesives segment which is further strengthened by its entry into corrugated pipes business through acquisition of Rex Poly Extrusion Pvt Ltd (Rex) in July 2018. The ratings also derive strength from its backward integration in to chlorinated polyvinyl chloride (CPVC) compounding, healthy profitability and comfortable debt coverage indicators along with favourable demand prospects for the Indian plastic pipes and adhesives industry.

The long term rating is, however, constrained by susceptibility of its profitability to fluctuations in raw material prices and foreign exchange rates, supplier concentration risk; and high competition in the Indian pipes industry due to low entry barriers.

APTL's ability to significantly grow its scale of operations in pipes and adhesives segment through further geographical diversification leading to increase in its market share, sustained improvement in its profitability while exhibiting relatively less volatility despite fluctuation in raw material prices and foreign exchange rates amidst intense competition; along with improvement in its leverage and debt coverage indicators would be the key rating sensitivities. Any large size predominantly debt-funded capex or acquisition adversely impacting its capital structure would also be a key credit monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of operations in plumbing pipes & fittings business: Established in 1996, APTL is promoted by Mr. Sandeep Engineer (Managing Director) who has over three decades of experience in the plastics and chemical industry. He is also a member of the Executive Committee of the Indian Plumbing Association and a member of the World Plumbing Council.

APTL is amongst the leading players in the domestic CPVC pipes & fittings business with presence in lead free PVC pipes since 2004 and lead free uPVC column pipes since 2012 and has National Sanitation Foundation (NSF) certification for CPVC piping system in India since 2007.

APTL forayed into related adhesives business in 2011 and later acquired Resinova Chemie Ltd (RCL) in November 2014 and subsequently ventured into sealants business with acquisition of Seal IT Services Ltd (UK) in August 2014. These acquisitions added a variety of adhesives and sealants to APTL's product portfolio. Further, in July 2018, with the acquisition of 51% stake in Rex, APTL entered into a range of corrugated pipes. APTL is envisaged to acquire the balance 49% stake in Rex by end-FY19 through a share swap between the shareholders of APTL and the outgoing promoters of Rex.

Diversified product portfolio in pipes and adhesive business along with entry into corrugated pipes segment through acquisition of Rex: APTL has launched a wide variety of products in PVC, CPVC and lead-free PVC plumbing systems and fittings including drainage systems, agriculture systems, fire sprinkler systems, electrical conduit pipes, pipe for industrial applications. In pipes and fittings segment, APTL has significant presence in the value added CPVC pipes (which constituted 41% of APTL's consolidated sales mix in FY18); while PVC pipes and adhesives comprised 33% and 26% respectively of its total sales. From FY19 APTL's product portfolio would be further strengthened with addition of new

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

products like corrugated pipes, cable protection systems for telecommunication lines, double wall corrugated pipes and pipes for subsurface drainage through acquisition of Rex. Further, Rex was majorly involved in manufacturing pipes for government contracts and would now have access to the distribution network of APTL which is expected to expand its reach in non-government and retail segment.

Product portfolio for its adhesive business includes various sealants and adhesives including anaerobic adhesives, silicone sealants, construction chemicals, poly vinyl acetate, cyanoacrylate, solvent cements, tapes, polymeric filling compound, epoxy adhesives and industrial adhesives. Products of the company are used across multiple applications, such as domestic household, construction, furniture, engineering, automobile and insulation.

Widespread dealer and distribution network leading to geographically diversified operations: APTL's diversified product portfolio is well complemented by an established and widespread network of dealers and distributors across India; albeit with relatively smaller presence in eastern India. For pipes segment, it has more than 750 distributors with 28,000 dealers and for the adhesives segment, it has more than 1,800 distributors with 4,00,000 dealers. APTL's strong distribution network has enabled it to have a pan India presence in its pipes business with strong presence in West and South India, while its presence in North India is expected to increase over next few years with the commissioning of its Ghiloth plant in Rajasthan in July 2018. The adhesives business currently has a strong presence in North India while its foothold is expected to increase in West and South India over next few years by leveraging on the strong distribution network of its pipes segment.

Strong brand franchise of 'Astral' aided by advertising and sales promotion spend: Over the years, APTL has built its 'Astral' brand through various branding initiatives. APTL has consistently invested in brand creation through various brand building activities such as in-film branding, advertisement hoardings, on-ground cricket match branding, sports sponsorship, banners on trains or buses or autos, television advertisement, shop hoarding boards, digital marketing, meeting at plumber or architects or distributors level, etc. It has also engaged cine-stars as its brand ambassadors, Mr. Salman Khan for its pipe business and Mr. Varun Dhawan for its adhesives business. On a consolidated basis, APTL's advertisement and brand promotion expenses increased to 4.22% of its TOI during FY18 as compared to 2.87% in FY17 underlying its focus on promotion of brand.

Continuous growth in its TOI along with healthy profitability and comfortable debt coverage indicators, aided by backward integration in to CPVC compounding: APTL's consolidated total operating income (TOI) increased at a compounded annual growth rate (CAGR) of 18% over the past five years ended FY18. During FY18, its consolidated TOI grew by 11% y-o-y to Rs.2,112 crore led by 9% increase in pipes segment and 16% increase in adhesives. The pipes segment has grown at a CAGR of 11% during the past five years ended FY18 with increase in demand from construction and agriculture sectors along with replacement/substitution of metal pipes by plastic pipes. APTL's PBILDT margin has improved steadily from 12.14% in FY16 to 15.30% in FY18 with reduction in raw material cost and benefits of its backward integration in to CPVC compounding. Further, in H1FY19, APTL has reported 20% y-o-y growth in its TOI to Rs.1,115 crore with healthy PBILDT margin of 16.21% as compared to 13.98% PBILDT margin in H1FY18.

APTL ventured in to backward integration of CPVC compounding from October 2016 with sourcing of CPVC resin largely from Sekisui Chemical Co. Ltd (Sekisui). As a result its profit margins improved in FY17 and FY18 and have also stabilized at those higher levels.

APTL's overall gearing on a consolidated level has improved over the past few years and its debt coverage indicators have also remained at comfortable levels.

No major debt funded capex plans: APTL has increased its pipe manufacturing capacity over the past few years with commencement of operations at its Ghiloth, Rajasthan plant in June 2018 and capacity expansion at its Hosur plant in September 2018. The capacity utilization of its pipes segment was at a moderate level of 70% during FY18. To increase its capacity in pipes segment (including in Rex) APTL plans to undertake capex of around Rs.187 crore during FY19 and FY20 which is expected to be funded through term loan of Rs.75 crore and balance through internal accruals.

In the adhesives business segment, currently the capacity utilization is low at around 30-35% and hence no capex is required in the medium term. APTL's management has articulated their policy of adhering to a peak overall gearing of 0.75 times. Any large size predominantly debt-funded capex or acquisition adversely impacting its capital structure would also be a key credit monitorable.

Liquidity Analysis: APTL's operating cycle was comfortable at around 90 days during the past three years on a standalone as well as consolidated basis. For piping business, APTL offered credit period of around 50 days to its distributors over the past three years. However, during H1FY19, APTL has reduced the credit period to its distributors which translated into a collection period of around 30 days (on a standalone basis) during the same period mainly led by facilitation of channel finance for most of the distributors. APTL's management has articulated their plans to focus on rationalization of its inventory levels so as to further improve its operating cycle going forward. The utilization of APTL's working capital limits remained moderate at 76% over the past 12 months ended November 2018. Its net cash flow from operations was healthy at Rs.205 crore during FY18. Further, APTL had free cash and bank balance of Rs.33 crore on a consolidated basis as on September 30, 2018 providing cushion to its liquidity. Also, its current ratio was healthy at 1.51 times as on March 31, 2018.

Industry prospects: Favourable demand prospects for the Indian pipes and adhesive industry: In India, the per capita PVC consumption is lower than that in developed countries which implies significant growth potential for PVC products. Various central and state government initiatives to develop tier- II and tier- III cities along with development of construction and infrastructure sector, target to construct 50 million houses by FY22 is expected to increase demand for plastic pipes as well as construction chemicals in India which is expected to be beneficial for established players like APTL which are more focused in plumbing segment. Furthermore, around 45% of its total pipe sales are for meeting replacement demand which imparts greater degree of stability to its business.

Key Rating Weaknesses

Susceptibility of profitability to volatility in raw material prices and foreign exchange rates: The raw material for APTL majorly constitutes of CPVC resin (comprises around 55-60% of total raw material requirement which was majorly imported) and PVC resin. PVC prices are related to crude prices. The raw material required for adhesives are also crude derivative products. Thus, APTL is exposed to fluctuation in raw material prices.

APTL is exposed to fluctuations in foreign exchange rates since it imports around 35% of its total raw material requirement against which a very small portion is exports (around 1% of TOI). APTL does not hedge its open forex cover beyond 60 days, thus exposing it to fluctuations in foreign exchange rate.

Supplier concentration risk: APTL procures CPVC resin largely from a single supplier and hence is exposed to supplier concentration risk. The PVC industry in India has five major producers viz. Reliance Industries Ltd, Finolex Industries Ltd, Chemplast Sanmar Ltd, DCW Ltd and DCM Sriram Ltd. APTL majorly procures its PVC requirement locally from some of these domestic suppliers while some portion of requirement is also met through imports. For APTL, the top-10 suppliers comprised 68% of the total raw material purchased during FY18 thus exposing it to moderate degree of supplier concentration risk.

Low entry barriers in plastic pipes industry leading to high competition: A significant portion of the Indian plastic pipes industry comprises of unorganized players on account of low entry barriers and commoditized nature of the product. This has led to high competition in the industry and thus high pricing pressure. Moreover, the price differential between branded and unbranded products was more than 10-15% before implementation of GST & E-Way Bill; however, this price differential is expected to reduce with implementation of GST and E-Way Bill.

Analytical approach: Consolidated

CARE has considered consolidated financials of APTL for its rating approach on account of business synergies with its subsidiaries which have been set-up/ acquired in different geographies to cater to a wider market or are related diversification to complement its existing product portfolio (e.g. adhesives); and due to their common management. The companies that have been consolidated include Resinova Chemie Ltd (RCL; 97.45% subsidiary of APTL), Seal IT Services Ltd (UK; 80% subsidiary of APTL) [with Seal IT Services Inc. (USA) as its step down subsidiary], Astral Biochem Pvt Ltd (100% subsidiary of APTL which is non-operational) and Astral Pipes Ltd (Kenya, 50% joint venture of APTL). Further, APTL acquired 51% stake in Rex in July 2018 and the same is expected to be merged with APTL by end-FY19; hence its impact is also suitably factored in the analysis.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

APTL was established in 1996 as a private limited company by Mr Sandeep Engineer. In 2007, the company was reconstituted as a public limited company with its Initial Public Offering. APTL manufactures PVC and CPVC plumbing systems for various applications. As on September 30, 2018, it had total pipe manufacturing capacity of 1,75,000 MTPA at its plants located in Santej & Dholka (Gujarat), Hosur (Tamil Nadu) and Ghiloth (Rajasthan).

APTL forayed into manufacturing of adhesives and sealants by acquiring RCL and Seal IT Services Ltd (SISL; based in UK and USA) in FY15. RCL has total manufacturing capacity of 62,000 MT with its plants located at Santej (Gujarat), Unnao (UP) and Rania (UP) while SISL has total manufacturing capacity of 23,500 MT with plants at UK and USA.

Rex manufactures corrugated pipes and other plastic piping solutions. It has aggregate pipe manufacturing capacity of 27,000 MT with its plants located at Sangli (Maharashtra) and Sitarganj (Uttarakhand).

Brief Financials – Consolidated (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1,900	2,112
PBILDT	269	324
PAT	145	176
Overall gearing (times)	0.37	0.37
Interest coverage (times)	14.63	14.99

A: Audited

As per H1FY19 published results, APTL reported total operating income of Rs.1,115 crore with PAT of Rs.83 crore on a consolidated basis as against total operating income of Rs.927 crore and PAT of Rs.64 crore during H1FY18.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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.

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/Non-fund-based-LT/ST	-	-	-	664.50	CARE AA; Stable / CARE A1+
Fund-based - LT-Term Loan	-	-	July 2023	141.92	CARE AA; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	664.50	CARE AA; Stable / CARE A1+	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	141.92	CARE AA; Stable	-	-	-	-

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