Astral Poly Technik Limited

September 26, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	141.40 (reduced from 141.92)	**CARE AA; Stable [Double A; Outlook : Stable]**	Reaffirmed
Long Term / Short Term Bank Facilities	664.50	**CARE AA; Stable/ CARE A1+ [Double A; Outlook : Stable/ A One Plus]**	Reaffirmed
Total Facilities	**805.90 (Rupees Eight Hundred Five crore and Ninety 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) continue to derive 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 steady growth in its total operating income (TOI) with geographically diversified presence.

The ratings also continue to derive strength from 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, 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, however, continues to be 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, with the acquisition of Rex, in July 2018, APTL has entered into a range of corrugated pipes.

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 and pipes for industrial applications. In pipes and fittings segment, APTL has significant presence in the value-added CPVC pipes (which constitutes around 33% of APTL's sales mix); PVC pipes along with infra products comprises 41% and adhesives comprise around 26% of its total sales.

APTL's product portfolio has been further strengthened with addition of new products like corrugated pipes, cable protection systems for telecommunication lines, double wall corrugated pipes and pipes for sub-surface drainage through acquisition of Rex.

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

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 800 distributors with 30,000 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 and East India is expected to increase over next few years after commissioning of its Ghiloth (Rajasthan) plant in July 2018 and expected establishment of a new plant in Bhubaneshwar (Odisha). 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. In the adhesives segment, APTL is gradually shifting from a 3-tier distribution system to 2-tier distribution system by eliminating the stockiest in the distribution system.

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. On a consolidated basis, APTL's advertisement and brand promotion expenses was 3.47% of its TOI during FY19 (3.22% in FY18) underlying its focus on promotion of brand.

Growth in its TOI in FY19 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 y-o-y by 21% to Rs.2,514 crore during FY19. The TOI has grown at a CAGR of 15% during the past four years ended FY19 with increase in demand from construction and agriculture sectors along with replacement/substitution of metal pipes by plastic pipes. APTL's PBILDT margin remained healthy at 15.60% in FY19 with benefits of its backward integration into CPVC compounding. Further, in Q1FY20, APTL has reported 28% y-o-y growth in its TOI to Rs.613 crore with healthy PBILDT margin of 16.29% as compared to 17.06% in Q1FY19.

APTL ventured into 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 have improved since then and have also stabilized at those higher levels. Furthermore, around 45% of its total pipe sales are for meeting replacement demand which imparts greater degree of stability to its business.

APTL's overall gearing and debt coverage indicators on a consolidated level have also remained at comfortable levels.

No major debt funded capex plans

APTL has increased its pipe manufacturing capacity during FY19 with commencement of operations at its Ghiloth, Rajasthan plant in June 2018 and capacity expansion at its Hosur plant in July 2019. The capacity utilization of its pipes segment was at a moderate level of 63% during FY19. To increase its capacity in pipes segment at its Ghiloth and Hosur plant and to develop a new pipe manufacturing unit at Bhubaneshwar (Odisha), APTL plans to undertake capex of around Rs.150 crore during FY20 which is expected to be funded through term loan of Rs.40 crore and balance through internal accruals.

In the adhesives business segment, currently the capacity utilization is low at around 28% and hence no capex is required in the medium term. APTL is gradually shifting from a 3-tier distribution system to 2-tier distribution system by eliminating the stockiest in the distribution system. Post completion of streamlining of the distribution system in adhesives segment by Q3FY20, capacity utilization of the same is expected to gradually increase.

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.

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 and rural drinking water programme 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, sale of PVC/CPVC pipes for meeting replacement demand is expected to aid its prospects.

Liquidity analysis

APTL's operating cycle was comfortable at around 79 days during FY19 on a consolidated basis which has improved from 88 days in FY18 due to the conscious reduction in its average collection period which was mainly led by facilitation of channel finance for most of the distributors in its pipe segment. 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 fund based working capital limits remained moderate at 60% over the past 12 months ended July 2019. Its net cash flow from operations was healthy at Rs.317 crore during FY19 (as against Rs.205 crore during FY18). Further, APTL had free cash and bank balance of Rs.98 crore on a consolidated basis as on March 31, 2019 providing cushion to its liquidity. Also, its current ratio was healthy at 1.48 times as on March 31, 2019.

Key Rating Weaknesses

Susceptibility of its profit to volatility in raw material prices and foreign exchange rates

APTL's raw material majorly comprises of CPVC resin (at around 55-60% of total raw material requirement which was majorly imported) and PVC resin. PVC resin prices are linked to the movement in 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 also 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 2-3 suppliers 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 56% of the total raw material purchased during FY19 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. Details of entities getting consolidated in APTL are shown at **Annexure 3**.

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 March 31, 2019, it had total pipe manufacturing capacity of 2,05,290 MTPA at its plants located in Santej & Dholka (Gujarat), Hosur (Tamil Nadu), Ghiloth (Rajasthan), Sangli (Maharashtra) and Sitarganj (Uttarakhand). It also has a 5,100 MTPA joint venture (JV) pipe manufacturing unit in Kenya.

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 61,991 MTPA of adhesives & sealants with its plants located at Santej (Gujarat), Unnao (UP) and Rania (UP) while SISL has total manufacturing capacity of 23,760 MTPA with plants at UK and USA.

Brief Financials- Consolidated (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	*2,079	2,514
PBILDT	324	392
PAT	176	197
Overall gearing (times)	0.37	0.33
Interest coverage (times)	14.99	12.27

*A: Audited, *This figure has been restated for FY18*

As per Q1FY20 published results, APTL reported total operating income of Rs.613 crore with PAT of Rs.48 crore on a consolidated basis as against total operating income of Rs.481 crore and PAT of Rs.38 crore during Q1FY19.

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/Non-fund-based-LT/ST	-	-	-	664.50	CARE AA; Stable / CARE A1+
Fund-based - LT-Term Loan	-	-	February 2024	141.40	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 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/Non-fund-based-LT/ST	LT/ST	664.50	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (16-Jan-19)	-	-
2.	Fund-based - LT-Term Loan	LT	141.40	CARE AA; Stable	-	1)CARE AA; Stable (16-Jan-19)	-	-

Annexure-3: List of entities getting consolidated in APTL

Name of entity	% holding of APTL as on March 31, 2019
Astral Biochem Private Limited	100.00%
Resinova Chemie Limited	97.45%
Seal IT Services Limited, UK	80.00%
Seal IT Services Inc., USA	80.00%
Astral Pipes Limited, Kenya (JV)	50.00%

***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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