Astral Poly Technik Limited

October 06, 2020

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long term bank facilities	45.38	CARE AA; Stable [Double A; Outlook: Stable]	Reaffirmed
Long-term/Short-term bank facilities	760.50	CARE AA; Stable/ CARE A1+ [Double A; Outlook: Stable/ A One Plus]	Reaffirmed
Total Facilities	**805.88 (Rupees Eight hundred five crore and eighty eight 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, backward integration into chlorinated polyvinyl chloride (CPVC) compounding, healthy profitability, comfortable capital structure and strong debt coverage indicators. CARE also notes that APTL has not availed any moratorium on its debt as a Covid relief measure, in line with Reserve Bank of India (RBI) guidelines, for servicing of its bank facilities which underlines its strong liquidity profile.

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 plastic pipes industry due to low entry barriers.

Rating Sensitivities

Positive Factors

- Improvement in its capacity utilization for pipes as well as adhesive segments along with TOI of more than Rs.4000 crore through greater geographical diversification leading to significant increase in its market share
- Sustained improvement in its PBILDT margin above 20% & ROCE above 25% along with maintaining overall gearing of below 0.30x and Total Debt/PBILDT of around 0.50x on a sustained basis
- Effective management of its working capital requirements leading to contraction in operating cycle to around 60 days on sustained basis
- Diversification of its raw material supplier base

Negative Factors

- Decline in scale of operations with TOI going below Rs.2000 crore along with PBILDT margin below 13% and ROCE below 15% on a sustained basis
- Major debt funded capex or acquisition leading to deterioration in its overall gearing to more than 0.75x and Total Debt/PBILDT to more than 1.50x on a sustained basis
- Elongation in its operating cycle beyond 100 days having an adverse impact on its cash flow from operations and liquidity
- Any unrelated diversification having adverse impact on the credit profile of the company

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. 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 with acquisition of Seal IT Services Ltd (UK) in August 2014 and later acquired Resinova Chemie Ltd (RCL) in November 2014. These acquisitions added a variety of adhesives and sealants to APTL's product portfolio. Further, with the acquisition of Rex Poly Extrusion Pvt Ltd (Rex), in July 2018, APTL has entered into a range of corrugated pipes.

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

Diversified product portfolio in pipes and adhesive business

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 along with PVC pipes and infra products constitute around 77% of APTL's total sales whereas adhesives constitute around 23% 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.

Product portfolio for its adhesive business includes various adhesives and sealants including anaerobic adhesives, silicone sealants, construction chemicals, poly vinyl acetate, cyanoacrylate, solvent cements, tapes, polymeric filling compound, epoxy adhesives, industrial adhesives and surface cleaning products. Adhesives and sealants of the company are used across multiple applications such as 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 its 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 and 31,000 dealers while for the adhesives segment, it has more than 1,300 distributors and 1,30,000 dealers. APTL's geographically diversified manufacturing facilities and strong distribution network has enabled it to have a pan India presence in its pipes business with strong presence in West, South and North India, while its current relatively low presence in East India is envisaged to increase over next few years after the expected establishment of its new plant in Bhubaneswar (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.

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 3.52% of its TOI during FY20 (3.47% in FY19) underlying its continued focus on promotion of its brand.

Stable TOI in FY20 along with healthy profitability, comfortable capital structure & strong debt coverage indicators, aided by backward integration in to CPVC compounding

APTL's consolidated total operating income (TOI) remained largely stable at Rs.2,584 crore during FY20 primarily due to COVID-19 led business disruptions in March 2020 along with structural changes in its adhesive distribution network during FY20 which impacted performance of its adhesive business. APTL's PBILDT margin remained healthy at 17.40% in FY20 aided by benefits of its backward integration into CPVC compounding. 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.

However, in Q1FY21, APTL has reported 34% y-o-y decline in its TOI to Rs.408 crore with PBILDT margin of 14.03% as compared with 16.24% in Q1FY20, primarily on account of shutdown of its manufacturing facilities in April 2020 due to countrywide lockdown to combat the spread of Covid-19 pandemic. However, with gradual resumption of its manufacturing activities from May 2020 onwards, during May-July 2020, APTL recovered around 90% of its sales volume of May-July 2019 in both pipes and adhesive segments. Recovery in sales volume was primarily due to healthy demand from agriculture sector along with replacement demand/substitution of metal pipes by plastic pipes which contributes around 50% of its total sales and thus imparts greater degree of stability to its business. APTL's overall gearing improved from 0.33 times as on March 31, 2019 to 0.29 times as on March 31, 2020 and its debt coverage indicators also remained at comfortable levels.

No major debt funded capex plans

APTL has increased its pipe manufacturing capacity from 205,290 MTPA in FY19 to 238,730 MTPA in FY20. The capacity utilization of its pipes segment was at a moderate level of 57% during FY20. APTL plans to undertake capex of around Rs.98 crore during FY21, primarily to setup valve manufacturing unit at Dholka (Gujarat) and pipe manufacturing unit at Bhubaneswar (Odisha), which is expected to be entirely funded through internal accruals. In the adhesives business segment, capacity utilization has been low at around 30% and hence no capex is required in the medium term. RCL has recently completed shifting from a 3-tier distribution system to 2-tier distribution system by eliminating the stockiest in the distribution system. Accordingly, capacity utilization of the adhesives segment is expected to gradually increase going forward. 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 be a key credit monitorable.

Liquidity: Strong

Liquidity of APTL is marked by strong accruals against negligible term debt repayment obligations and presence of liquid investments to the tune of Rs.173 crore as on June 30, 2020. The average utilization of its fund-based (majorly buyer's credit) working capital limits stood at a moderate level of around 60% during the trailing 12 months-ended August 2020. With an overall gearing of 0.29 times as on March 31, 2020, it has sufficient gearing headroom, to raise additional debt for its capex. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. The operating cycle also remained stable at 83 days during FY20 and current ratio remained healthy at 1.57x as on March 31, 2020. Also, APTL has not availed any moratorium on its debt obligations, the option for which was available to it as a Covid-relief measure under RBI's package on the back of its strong liquidity.

Key Rating Weaknesses

Susceptibility of its profitability 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 is majorly imported) and PVC resin. PVC resin prices are linked to the movement in crude oil prices. The raw material required for adhesives are also crude oil derivatives. 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 forex exposure beyond ~60 days, thus exposing it to fluctuations in foreign exchange rates.

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 domestically from some of these domestic suppliers while some portion of requirement is also met through imports. For APTL, the top-5 suppliers comprised 45% of the total raw material purchased during FY20 thus exposing it to moderate degree of supplier concentration risk.

Low entry barriers in a highly competitive plastic pipes industry

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. Indian plastic pipe industry primarily derives its demand from infrastructure/construction and agriculture sector along with replacement/substitution of metal pipes by cost-effective plastic pipes. The demand has been affected to an extent due to outbreak of the COVID-19 pandemic resulting in halting of infrastructure/construction activities due to lockdown which are, however, now on a path of slow recovery due to reverse migration of workers. However, the agriculture sector along with replacement requirement has supported the demand for plastic pipes during the pandemic. APTL derives around 50% of its pipe segment sales from non-construction sectors which imparts greater degree of stability to its business. Further, amid economic slowdown exacerbated by COVID-19, many unorganised and some organised players are experiencing liquidity stress. As a result, organised players with robust credit profile, wide product portfolio, strong brand and distribution network are likely to gain sizeable market share.

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; and due to their common management. Details of entities getting consolidated in APTL are shown at **Annexure 4**.

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy of Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Consolidation and Factoring Linkages in Ratings
Rating Methodology - Manufacturing Companies
Financial Ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

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, 2020, it had total pipe manufacturing capacity of 238,730 MTPA at its plants located in Santej & Dholka (Gujarat), Hosur (Tamil Nadu), Ghiloth (Rajasthan), Sangli (Maharashtra) and Sitarganj (Uttarakhand). It also has a 8,035 MTPA joint venture (JV) for pipe manufacturing 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 24,826 MTPA with plants at UK and USA.

Brief Financials - Consolidated (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2,514	2,584
PBILDT	392	450
PAT	197	250
Overall gearing (times)	0.33	0.29
Interest coverage (times)	12.27	11.41

A: Audited

As per its Q1FY21 published results, APTL reported total operating income of Rs.408 crore with PAT of Rs.20 crore on a consolidated basis as against total operating income of Rs.613 crore with PAT of Rs.48 crore during Q1FY20.

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	-	-	-	210.00	CARE AA; Stable / CARE A1+
Fund-based - LT-Term Loan	-	-	February 2024	45.38	CARE AA; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	539.00	CARE AA; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	11.50	CARE AA; Stable / 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/Non-fund-based-LT/ST	LT/ST	210.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (26-Sep-19)	1)CARE AA; Stable / CARE A1+ (16-Jan-19)	-
2.	Fund-based - LT-Term Loan	LT	45.38	CARE AA; Stable	-	1)CARE AA; Stable (26-Sep-19)	1)CARE AA; Stable (16-Jan-19)	-
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	539.00	CARE AA; Stable / CARE A1+	-	-	-	-
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	11.50	CARE AA; Stable / CARE A1+	-	-	-	-

Annexure-3: Complexity Level of various facilities rated for this company

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

Annexure-4: List of entities getting consolidated in APTL

Name of entity	% holding of APTL as on March 31, 2020
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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