NOCIL Limited

March 09, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Rating Action**
Long term Bank Facilities	120.00	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	80.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**200.00 (Rs. Two hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of NOCIL Limited (NOCIL; CIN: L99999MH1961PLC012003) continue to factor the dominant market position of NOCIL in rubber chemicals industry in India and its long established relationship with large domestic and global players in the tyre industry. The ratings also factor in NOCIL's consistent operational performance in the past, notwithstanding decline witnessed in 9MFY20 on the back of slowdown in the auto industry leading to decline in domestic volumes.

Sales realizations were adversely impacted in line with the global selling prices on account of decline in demand on the back of slowdown in the auto industry, further compounded by removal of anti -dumping duty w.e.f. July 2019, which was earlier providing a level playing field for domestic manufacturers vis-a-vis imported products. Further, continued trade war between USA and China also impacted sales realizations as products were increasingly dumped into non- USA markets including India. NOCIL continues to have a strong liquidity position marked by healthy cash accruals, liquid investments and unutilized working capital bank borrowings limits.

The ratings take cognizance of the successful mechanical completion of the capex in Dahej entirely funded using internal accruals. Going forward, ramping up of operations of the recently added capacities, while retaining healthy operating profitability shall be a key rating monitorable.

The rating strengths, however, continue to be tempered by exposure to any volatile movement in raw material prices, along with considerable dependence on tyre/automobile industry for growth. Also, the operations and profitability margins are exposed to risks associated in relation to import threat.

Rating Sensitivities

Positive factors:

- *Going forward, total operating income increasing above Rs. 2,000 crores on a sustained basis*

Negative factors:

- *Total debt/ PBILDT deteriorating beyond 1.15x on a sustained basis going forward*
- *Overall gearing increasing above 0.35x on a sustained basis going forward*

Detailed description of the key rating drivers

Key Rating Strengths

Leadership position in the domestic rubber chemicals

NOCIL has more than four decades of experience in manufacturing of rubber chemicals. Over the years, it has been able to maintain market leadership position in rubber chemicals[2] in the domestic market. The market leadership is supported through in-house research and development which focuses on developing better products and improving process efficiencies. The research and development department in Navi Mumbai is recognised by Ministry of Science and Technology, Government of India. NOCIL has tie-ups with several premier science and technology institutes in India for development of products.

Consistent demand for rubber chemicals although, moderately impacted in 9MFY20 on the back of slowdown in the auto industry

NOCIL witnessed healthy growth in revenue in FY19 on the back of sustained growth in automobile industry, protection from cheap imports from China in the form of anti-dumping duty on certain products and closure/ relocation of certain units in China on account of environmental clampdown. However, slowdown witnessed in the auto industry which started in the second half of FY19 and has worsened in FY20, adversely impacted tyre sales and consequently impacted demand for rubber

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*
[2] *Source: NOCIL; not independently verified by CARE.*

chemicals. Further, removal of anti- dumping duty from July 2019 put pressure on realizations as the same was earlier providing a level playing field to domestic manufacturers vis-a-vis imported products. Also, increased dumping of products from China on the back of the continued trade war between USA and China has adversely impacted sales realizations. Despite reduced volumes and sales realizations in 9MFY20 in the domestic market, export volumes registered a healthy growth on account of better product mix (specialized applications) offered by NOCIL, its long established relationship with clients and acquisition of new orders in particular in USA on the back of the ongoing trade war between USA and China. Realizations in the export market were lower on account of increased supplies in the global market as several units in China resumed operations after the clampdown.

Healthy profitability margins, notwithstanding marginal decline in 9MFY20

NOCIL's PBILDT margin had declined from 28.42% in FY19 to 23.09% in 9MFY20 on the back lower domestic volumes leading to reduced capacity utilization and also pricing pressure across product segments. Pricing pressure was felt on account of decline in demand on the back of slowdown in the auto industry, further compounded by removal of ADD on imports from China and Korea with effect from July 2019. During the above mentioned period, raw material prices have remained more or less stable thus, shielding the company from any fluctuations in that regard.

Strong debt coverage indicators

The working capital requirements of NOCIL are majorly funded through internal accruals and utilization of non-fund based limits to certain extent for funding purchases. Absence of long term debt and no utilization of working capital borrowing has resulted in a comfortable gearing of 0.02x as on March 31, 2019. Zero debt coupled with healthy cash accruals has resulted in strong debt coverage indicators for NOCIL.

Successful mechanical completion of the project capex, with the entire project been funded using internal accruals

In the recent past, the major players in China exited production due to environmental concerns, and various de-risking measures for reducing supply concentration are undertaken by major customers. To capitalize on these growth opportunities, NOCIL undertook capex of around Rs.448 crores in two phases- Phase 1 with an estimated capex of Rs.170 crore and Phase -2 with an estimated capex of Rs. 278 crores. Phase – 1 capex was completed in January 2019. As on December 31, 2019 the total cost for phase 2 has also been incurred. CARE notes that the entire capital expenditure has been funded by internal accruals. Going forward, successful ramping up of new capacities while maintaining healthy operating profitability shall be a key rating monitorable.

Key Rating Weaknesses

Competition from cheap imports; removal of anti-dumping duty with effect from July 2019 has adversely impacted NOCIL's operating performance

Apart from competition from unorganized sector, NOCIL is exposed to aggressive competition from the dumping of rubber chemicals in India mainly from China and Korea. Earlier, NOCIL was protected to the extent of anti – dumping duty (ADD) imposed by the Government of India on the import of some of its products but, the same has been discontinued with effect from July 2019. Q3FY20 is the first full quarter with full impact of the removal of ADD. In this quarter, NOCIL reported decline in revenue of around Rs.9 Crore on account of impact of ADD withdrawal as against the previous quarter impact of Rs. 6 crores where two months of ADD got impacted.

Though, there has been partial revival of major units in China which, were shut down due to environmental clampdown in September 2017, the cost of manufacturing has increased to some extent due to increased requirement of higher environmental standards. Hence, the cost differential between the landed cost of Chinese products has reduced against the manufactured products in India, thereby providing level playing field for domestic manufacturers. Further, after the disruption in supply from China on account of this shutdown, major global tyre manufacturers have started looking for an alternative source of supply to ensure seamless supply of raw materials which is expected to positively benefit the Indian manufacturers.

Profitability exposed to volatility in raw material prices

Most of the raw materials including benzene, chlorinated aromatics, amines and other chemicals are predominantly crude based; thus, any volatility in raw material prices is expected to have a bearing on the profitability margins. NOCIL enters into fixed price volume contract for a quarter with key customers, and for the remaining customers the contracts are entered on a spot basis. Thus, the profitability of the company continues to be impacted to any unfavourable input price scenario vis-a-vis selling price terms till the increased corresponding selling price is not realized.

Liquidity: Strong

NOCIL has strong liquidity indicators, marked by nil utilization of fund based working capital limits and very low utilization of non- fund based limits. Its liquidity position is further supported by healthy cash accruals, absence of long term debt repayments and a healthy cash and cash equivalents balance of Rs. 83.47 crore as on September 30, 2019.

Analytical approach: CARE analyzed NOCIL's credit profile by considering consolidated financial statements of the group owing to operational and financial linkages between the parent and 100% subsidiary i.e. PIL Chemicals Limited (PIL), and common management.

Applicable Criteria
[Criteria on assigning Outlook and Credit Watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology for Short-term Instruments]
[CARE's methodology for manufacturing companies]
[Financial ratios – Non-Financial Sector]
[Rating Methodology: Consolidation and Factoring Linkages in Ratings]

About the Company
Incorporated in 1961, NOCIL, an Arvind Mafatlal Group (AMG) company is engaged in the manufacturing of rubber chemicals and intermediates and is one of the leading producers of the same in the domestic market. As on December 31, 2019, the promoter group holds 33.73% equity stake in NOCIL.
NOCIL manufactures around 22 types of rubber chemicals which can be broadly classified under three grades which are accelerators, anti-degradants/anti-oxidants, and speciality chemicals. The products find application in industries like tyre, industrial rubber products, consumer rubber products and other segments of rubber processing industry. The manufacturing facilities are located in Navi Mumbai, Maharashtra and Dahej, Gujarat. The total capacity including intermediates is around 73,500 tonnes per annum which has increased from 55,000 tons per annum after successful commercial production of Phase – 1 of the project is Dahej. NOCIL's exports to around 40 countries across the world with export sales contributing to around 30% of total revenue in FY19.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	9MFY20 (UA)
Total operating income	983.57	1047.75	639.68
PBILDT	276.53	297.82	147.68
PAT	312.75*	184.85	108.80
Overall gearing (times)	*169.93*	*184.85*	*108.80*
Interest coverage (times)	0.05	0.02	Not available

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	-	80.00	CARE A1+
Fund-based-Long Term	-	-	-	-	120.00	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 - LT-Term Loan	LT	-	-	-	1)Withdrawn (12-Mar-19)	1)CARE AA; Stable (08-Jan-18)	1)CARE AA (14-Oct-16)
2.	Non-fund-based - ST-BG/LC	ST	80.00	CARE A1+	-	1)CARE A1+ (12-Mar-19)	1)CARE A1+ (08-Jan-18)	1)CARE A1+ (14-Oct-16)
3.	Fund-based-Long Term	LT	120.00	CARE AA; Stable	-	1)CARE AA; Stable (12-Mar-19)	1)CARE AA; Stable (08-Jan-18)	1)CARE AA (14-Oct-16)
4.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)Withdrawn (06-Mar-19)	1)CARE A1+ (08-Jan-18)	1)CARE A1+ (14-Oct-16)

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

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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