NOCIL Limited

March 12, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities (fund based)	120.00	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities (non-fund based)	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 reaffirmation of the ratings assigned to the bank facilities of NOCIL Limited (NOCIL) continue to factor the dominant market position of NOCIL in rubber chemicals in India and consistent improvement in operational performance of the company leading to improvement in the financial risk profile. The company continues to have a strong liquidity position marked by healthy cash accruals, liquid investments and unutilized working capital bank borrowings limits.

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, and dependence on the government policy with anti-dumping duty expiring in July 2019. Furthermore, the company is exposed to project risk including timely completion, cost overrun, for planned capital expenditure to be completed in a phased manner in next few years.

The ability of the company to maintain growth whilst maintaining profitability as envisaged, maintain competitive position against imports, and efficient working capital management are key rating sensitivities. Any adverse regulatory development and stress on the cash flows of the company due to planned capital expenditure are other key rating sensitivities.

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, the company is able to maintain the market leadership position in rubber chemicals[2] in the domestic market.

Improved demand for rubber chemicals in India: The growth in automobile industry, extension of anti-dumping duty till July 2019, and temporary closure of major units in China in September 2017 due to inadequate environmental and quality standards, positively shifted demand for rubber chemicals to India and other countries. The same reflected in increase in gross sales to Rs.989 crore in FY18 (refers to the period April 1 to March 31) from Rs.818 crore in FY17 which includes volume growth of 12.30% in FY18.

Healthy profitability margins: The profit before interest, depreciation and tax (PBILDT) margin improved to 28.11% in FY18 from 21.84% in FY17. The same is on account of improved product mix by increasing share of margin accretive products, better absorption of overhead costs with improved utilization of capacity, and cost optimization measures undertaken by the company.

Strong liquidity position: In FY18, the operating cycle improved to 98 days from 104 days in FY17 majorly on account of reduced inventory levels due to efficient management. On account of improvement in cash accrual position on the back of increasing profitability, efficient working capital management and sale of investments, the liquidity position of the company improved. As on December 31, 2018, the total cash and cash equivalents is Rs.155 crore. The fund-based working capital bank utilisation during the past 12 months (January 2018 to February 2019) is nil.

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

[2] *Source: NOCIL; not verified independently by CARE.*

Comfortable financial risk profile: The working capital requirements are funded majorly through internal accruals and utilisation of non-fun based limits for import purchases. Thus, the overall gearing continues to remain comfortable at 0.05 times as on March 31, 2018.

Key Rating Weaknesses

Competition from cheap imports and dependence on government policies: Apart from competition from unorganised sector, the company is exposed to aggressive competition from the dumping of rubber chemicals in India. The Government of India extended anti-dumping duty on import of rubber chemicals from China and Korean Republic for a period of five years i.e. for the period July 2014 to July 2019. On an average, around 50% of the revenue for NOCIL is derived from products covered under anti-dumping duty. Thus, the company's profitability continues to be exposed to risks associated with change in government policies and import threat at competitive rates.

Project risk: To capitalize the above growth opportunities, NOCIL is undertaking major capacity expansion and announced capital expenditure of Rs.425 crore (completed capital expenditure of Rs.170 crore by January 2019) to be completed by FY20 under various phases. Furthermore, the company may evaluate further capital expenditure which is under preliminary stage. The expansion is for the existing range of products as well as for some additional ones. The capital expenditure is to be funded by internal accruals and liquid investments. The timely completion of the project without any time and cost overrun without any additional stress on the cash flows of the company remains crucial from credit perspective.

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. The company 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.

Linked to growth in end user tyre/automobile industry: Rubber chemical's demand is directly linked to rubber production/consumption (both natural and synthetic). The automobile industry is the major consumer contributing around 80% of total consumption (includes major consumption from tyre industry). The automobile and tyre sector growth is directly proportional to infrastructure, manufacturing and agricultural growth i.e. overall economy. The domestic automobile sector reported a growth of 14% in FY18 owing to growth in overall economy and new launches. The investment announcements by domestic as well as international tyre manufacturing players to expand capacities are expected to augur well for demand of rubber chemicals. Although the outlook looks positive for tyre/automobile industry, the cyclical nature of automobile industry exposes the performance of the company to the demand pattern of automotive sector.

Analytical approach: CARE analysed 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 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: Factoring Linkages in Ratings

About the Company

Incorporated in 1961, NOCIL (CIN No.: L99999MH1961PLC012003), 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, 2018, the promoter group holds 33.78% equity stake in the company.

The company manufactures around 21 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 55,000 tonnes per annum and is on an average 95% utilised. The international presence of the company is spread across in around 40 countries. In FY18, the export sales contributed around 26% of total gross sales.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	753.17	983.57
PBILDT	164.52	276.53
PAT	97.11	312.75*
Reported PAT	*97.11*	*169.93*
Overall gearing (times)	0.04	0.05
Interest coverage (times)	74.11	226.66

A: Audited
**The profit after tax (PAT) is higher than reported PAT by the company owing to inclusion of realised profit on sale of investments of Rs.142.82 crore. The same was transferred from other comprehensive income to reserves and surplus by the company.*

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.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Facilities

Name of the facilities	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 Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Dates & Ratings assigned in 2018-2019	Dates & Ratings assigned in 2017-2018	Dates & Ratings assigned in 2016-2017	Dates & Ratings assigned in 2015-2016
1	Non-fund-based - ST-BG/LC	ST	80.00	CARE A1+	-	1)CARE A1+ (08-Jan-18)	1)CARE A1+ (14-Oct-16)	1)CARE A1+ (04-Dec-15) 2)CARE A1+ (15-May-15)
2	Fund-based-Long Term	LT	120.00	CARE AA; Stable	-	1)CARE AA; Stable (08-Jan-18)	1)CARE AA (14-Oct-16)	1)CARE AA- (04-Dec-15) 2)CARE AA- (15-May-15)

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