

Press Release

Appl Industries Limited

April 05, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	190.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	10.00	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	200.00	-	-

Rating Rationale

ACUITE has assigned its long term rating of '**ACUITE BBB-**'(read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs 200.00 crore bank facilities of APPL Industries Limited (AIL). The outlook is '**Stable**'.

Rationale for rating

The rating assigned reflects the established track record of operations of more than two decades with experienced management which is also reflected from its growing revenue trend and well-established position on the market of thermoplastic compounding sector. Further, the rating factors in that AIL supplies to the automotive Tier -1 supplier who then caters to the requirement of major OEMs. The rating takes into account the diversified customer profile and moderate financial risk profile of the company. However, the above mentioned strengths are partly offset by working capital intensive nature of operations which is also reflected through moderate bank limit utilization of an average 87% in last 11 months ended February 2023. Further, the margins are susceptible to volatility in the raw material prices as well the competitive nature of industry.

About the Company

Incorporated in 2001, APPL Industries Limited (AIL) is a Delhi-based company engaged in engineering thermoplastics based on commodity resins and engineering plastics based on advanced plastic resins. The combination of different resins with filler and reinforcement results in different properties and a wide variety of compounds. Its major application areas are the automotive industry, home appliances, packaging and petrochemicals.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of APPL INDUSTRIES LIMITED to arrive at this rating.

Key Rating Drivers

Strengths

Experienced Promoters with long track record of operations

APPL has incorporated in 2001. The company is engaged into the manufacturing of engineered thermoplastics based on commodity resins and engineering plastics based on advanced plastic resins. The combination of different resins with filler and reinforcement results in different properties and a wide variety of compounds. AIL is currently promoted by Mr. Inder Jain, who has an experience of more than three decade in the same line of business. The established track record has helped the company to maintain a longstanding relationship with reputed clientele like Varroc Polymers Private Limited, Lumax Auto Technologies Limited, Tractors And Farm Equipment Limited, Varroc Engineering Limited etc. Further, these customers are the tier-1 suppliers to major OEMs. Acuite believes that AIL will continue to derive benefit from its established track record and longstanding relationship with reputed clientele.

Growth in scale of operations of the company

The company has reported revenue of Rs.473.04 Crore in FY22 against Rs.379.60 Crore in FY21 and Rs 377.52 Crore in FY20. The top line growth of the company has muted in FY21 due to pandemic. However, in FY22 company bounced back and shown improvement of around 30% as comparison to FY20. In addition, the EBITDA Margins of the company have shown slight improvement which stood at 6.74% in FY22 against 6.55% in FY21. However, there is an impact of crude oil prices on the top line and profitability of business as raw materials used in thermoplastics are derived from petroleum only. Further, increase in the prices of the raw material are passed on to the customers with a lag of 3 months. However, the PAT Margins of the company stood at 2.02% in FY22 against 1.88% in FY21. The company has already achieved a revenue of Rs.511.42 Crore till February 2023 and is expected to achieve a revenue of Rs.550 Crore in FY 23. Acuite believes the improvement in scale of operations while maintaining profitability is a key rating sensitivity.

Moderate Financial Risk Profile

The financial risk profile of the company is moderate marked by moderate net-worth, gearing and debt protection metrics. The net worth of the company stood at Rs.126.58 Crore in FY22 against Rs.117.07 Crore in FY21. The increase in net worth is majorly due to accretion of profits to the reserves. The total debt of the company stood at Rs.157.48 Crore in FY22 consists long term debt of Rs.57.32 Crore, unsecured loans (interest bearing 12%) of Rs.2.62 Crore and Short term debt of Rs.97.53 Crore. Further, the debt-equity ratio of the company stood at 1.24 times in FY22 against 1.31 times in FY21. Further the debt protection metrics stood moderate with the interest coverage ratio of the company stood at 2.56 times in FY22 against 2.56 times in FY21. The DSCR ratio of the company stood at 1.14 times in FY22 against 2.39 times in FY21 and TOL/TNW ratio stood at 1.90 times in FY22 against 1.91 times in FY21. Further, the team has calculated the adjusted debt-equity ratio and TOL/TNW after eliminating Loans and advances from related parties along with Investments in the sister concern resulting into debt-equity ratio and TOL/TNW ratio stood at 1.55 times and 2.36 times in FY22. In FY23 company took an additional loan of Rs.15.00 Crore to acquire the company named Dahej Energy Private Limited and in FY24 an additional loan of Rs.3 Crore have shown for the new plant(Chennai Plant). However, the debt-equity ratio of the company is expected to remain in comfortable position in succeeding years.

Acuite believes that the financial risk profile of the company may continue to remain moderate in the medium term with debt-funded capex plan.

Weaknesses

Working capital intensive operations

The working capital operations of the company are intensive marked by GCA days of 144 days in FY22 against 158 days in FY21. There is an improvement in the GCA days due to debtor days which stood at 87 days in FY22 against 96 days in FY21. The company primarily provides polypropylene compounds to Tier-1 Automotive Suppliers, who in turn meet the needs of some of the largest OEMs. However, company maintain average debtor days of around 70-80 days. Further, the inventory days of the company stood at 54 days in FY22 against 58 days in FY21. As company is required to maintain average inventory days of approximately 50 days for smooth running of production process. Subsequently, the payable period stood at 62 days in FY22 against 65 days in FY21. Creditors of the company remain in the same range.

Acuité believes that working capital operations may continue to remain intensive with requirement of maintaining certain levels of inventory and the general terms allowed to customers for payment.

Susceptibility of the profitability to volatility in the raw material prices

The profitability margins of the company remain susceptible to volatility in the raw material prices (raw materials being petroleum based products), the prices of which are highly volatile in nature. Any adverse fluctuation in raw material price may impact the profitability of the company. In addition, the automotive sector is quite cyclical, and vehicle OEM sales and the sales of automotive component suppliers are mutually exclusive. The auto-ancillary market is also quite competitive due to the abundance of participants in both the organised and unorganised sectors.

Rating Sensitivities

- Improvement in scale of operations while maintaining profitability margins.
- Further deterioration in working capital operations

Material covenants

None.

Liquidity Position Adequate

The liquidity profile of the company is adequate. The company has generated net cash accruals of Rs.17.86 Crore in FY22 against the maturing debt obligation of Rs.14.15 Crore during the same tenure. Going forward, the company is expected to generate net cash accruals in the range of Rs.23.55 crore- Rs 29.29 crore against the maturing debt obligation of Rs.20.21 Crore-Rs 21.37 crore in the same period. In addition, the current ratio of the company stood at 1.02 times in FY 2022. The average bank limit utilisation of fund based facilities stood at 87.37% in last 11 months ending February 2023 and the average bank limit utilisation of non-fund based facilities stood at 73.35% in last 11 months ending February 2023.

Outlook: Stable

Acuité believes the outlook on the company will remain 'Stable' on account of the company's established presence in the industry along with reputed clientele and increasing scale of operations. The outlook may be revised to 'Positive' if the company achieves a sustained growth in revenues, profit margins and improves its capital structure and working capital operations. The outlook may be revised to 'Negative' in case the company registers significant decline in cash accruals or stretched in working capital cycle resulting in deterioration of its financial risk profile and stretched in liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	473.04	379.60
PAT	Rs. Cr.	9.54	7.13
PAT Margin	(%)	2.02	1.88
Total Debt/Tangible Net Worth	Times	1.24	1.31
PBDIT/Interest	Times	2.56	2.56

Status of non-cooperation with previous CRA (if applicable)

Not applicable.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE BBB- Stable Assigned
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB- Stable Assigned
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE BBB- Stable Assigned
Yes Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A3 Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE BBB- Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	24.00	ACUITE BBB- Stable Assigned
Yes Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	19.50	ACUITE BBB- Stable Assigned
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.50	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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