

## Chemfab Alkalis Limited

August 07, 2018

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	45.00 (reduced from 60.00)	<b>CARE A-; Stable (Single A Minus; Outlook: Stable)</b>	Reaffirmed
Short-term Bank Facilities	18.50	<b>CARE A2+ (A Two Plus)</b>	Reaffirmed
<b>Total Facilities</b>	<b>63.50 (Rupees Sixty Three crore and Fifty lakh only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Chemfab Alkalis Limited (CAL) derive strength from the experienced promoters & management, long track record of operations in the caustic soda business, diversified client base across industries, comfortable capital structure and debt protection metrics.

The ratings are, however, constrained by the inherent volatility present in realization of ECU (Electro Chemical Units), pressure on caustic soda production due to lower downstream uses of chlorine and losses in one of the units producing Sodium chlorate. The ratings also take note of the on-going capital expenditure program of the company involving expansion of the existing ECU capacities at Pondicherry (including a desalination plant which is funded by internal accruals) and setting up of a PVC-O pipe plant at Sricity SEZ which is partly funded by debt. The said debt is not expected to have a significant impact on the capital structure of the company; however, any large debt funded capital expansion undertaken by the company would remain a key rating sensitivity.

Going forward, timely completion of these expansion and new PVC-O piping unit will be important in scaling up the operations of the company. While the ECU realization have been highly favorable for the company in the last year or so, volatility in the same and its impact on profitability of the company would also be a key rating sensitivity.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Experienced promoter and management**

CAL, part of the TEAM group, was promoted by late Dr C. H. Krishnamurthi Rao who was a technocrat and an industrial entrepreneur has 3 decades of experience in chlor alkali industry.

Mr Suresh Krishnamurthi Rao son of Dr C. H. Krishnamurthi Rao who is a management graduate has almost two decades of experience is the present chairman of CAL. The CAL day-to-day operations are managed by Mr V. M. Srinivasan who is the CEO of the company has almost two decades of experience in plastics and chemical business.

##### **Long track record of operations of the caustic soda plant**

The company's Pondicherry plant has a track record of 32 years with 125 TPD production of caustic soda. Capacity utilisation levels have been consistently high over the last few years for the caustic soda plant; however, the capacity utilisation reduced to 85% in FY18 due to increase in installed capacity from 100 TPD to 125 TPD from July 2017. CAL plans to increase its installed capacity in the caustic soda plant to 200 TPD is awaiting approvals for the same. The chlorine (a by-product in caustic soda manufacturing) demand dictates the utilisation of caustic soda as disposal of chlorine is a major issue faced by industry.

##### **Diversified clientele across various industries**

CAL's products find application across various industries like textiles, FMCG, petrochemicals, acids & chemicals, pharmaceutical and paper industries. CAL's clientele is diversified across these industries with about 25% of sales for FY18 coming from top ten customers as against 42% in the previous year.

##### **Comfortable capital structure and debt protection metrics**

The capital structure of CAL is comfortable with the overall gearing at 0.10x as on March 2018. The company's liquidity position is comfortable with a negative working capital cycle and minimal usage of its cash credit facilities. The company is expected to incur capital expenditure in the medium term including setting up of a PVC-O pipe manufacturing plant at an estimated project cost of Rs.50 crore and desalination plant at an estimated project cost of around at Rs. 15.50 crore. The

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications.

company is also in process of doubling the existing hydrochloric acid plant capacity to 320 TPD coupled with debottlenecking the plant for gearing up to 200 TPD Caustic soda production with an investment of around Rs. 14.87 crore.

#### Key Rating Weaknesses

##### **Loss making nature of the sodium chlorate business**

The company's Ongole plant is the first producer of sodium chlorate crystals in India at the current capacity of 32 TPD as on March, 2018. The plant was commissioned in February 2012 and hydrogen is produced along with sodium chlorate in the process. The company has been incurring losses on account of various issues including realisations and higher power costs. CAL shut down its Ongole plant for both annual maintenance and stock clearance from July 10, 2018. However, it is noted that sodium chlorate accounts only for 17% of the overall sales and a large part of the sales is driven by the production at Pondicherry plant with caustic soda lye accounting for 71% of the total sales in FY18.

##### **Profitability margins determined by cost of power and volatile ECU realisations**

The profitability margins of CAL (pre and post-merger) have mostly been stable in the range of 25-30%. Power is the major cost parameter in the chlor alkali industry. CAL's power supply is fairly stable and pricing is also fairly stable as it is largely dependent on the grid power. Besides power, CAL's profitability margins are exposed to volatile ECU realisations.

#### Analytical approach:

Standalone

#### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[CARE's Methodology for manufacturing companies](#)

[Financial ratios – Non-Financial Sector](#)

#### About the Company

CAL belongs to the TEAM group of companies and is engaged in the manufacture and sale of chemicals majorly caustic soda and sodium chlorate from its manufacturing units at Pondicherry and Andhra Pradesh respectively.

Prior to March 2017, the caustic soda plant was under "Chemfab Alkalis Limited" and the sodium chlorate plant was under "Teamec Chlorates Limited" (TCL). While Teamec is operational from 2012, Chemfab Alkalis Limited has been operational from 1983. Teamec acquired Chemfab Alkalis Limited with effect from March 30, 2017 and subsequently changed its name to CAL in July 2017. FY18 is the first year of the merged entity, viz., CAL.

As of July, 2018, CAL has an installed capacity of 125 TPD of caustic soda and 32 TPD of sodium chlorate. CAL also produces chlorine, hydrogen, sodium hypo chlorite, and hydro chloric Acid as by products from manufacture of caustic soda and hydrogen as a by-product from manufacture of sodium chlorate.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	142.58	181.78
PBILDT	35.25	54.49
PAT	15.54	25.47
Overall gearing (times)	0.12	0.10
Interest coverage (times)	7.16	15.57

A: Audited

#### Status of non-cooperation with previous CRA:

CRISIL has conducted the review on the basis of best available information and has classified the company as "Not cooperating" vide its press release dated May 11, 2018.

#### 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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**Annexure-1: Details of Facilities**

Name of the Instrument	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	-	-	-	18.50	CARE A2+
Fund-based - LT-Term Loan	-	-	July 2025	35.00	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE A-; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-BG/LC	ST	18.50	CARE A2+	-	1)CARE A2+ (25-Oct-17) 2)CARE A2+ (09-Oct-17)	-	-
2.	Fund-based - LT-Term Loan	LT	35.00	CARE A-; Stable	-	1)CARE A-; Stable (25-Oct-17) 2)CARE A-; Stable (09-Oct-17)	-	-
3.	Fund-based - LT-Cash Credit	LT	10.00	CARE A-; Stable	-	1)CARE A-; Stable (25-Oct-17) 2)CARE A-; Stable (09-Oct-17)	-	-

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