

Chemfab Alkalis Limited

October 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	20.00 (Enhanced from 15.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	20.00 (Reduced from 25.00)	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	40.00 (Rs. Forty crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Chemfab Alkalis Limited (CAL) continue to derive comfort from the experienced promoters and management, long track record of operations in the caustic soda business and diversified client base across industries. The ratings derive strength from diversification of revenue with foray into Oriented Poly Vinyl Chloride (PVC – O) pipes segment albeit at a lower scale and comfortable capital structure. The ratings are, however, constrained by the inherent volatility present in realizations of Electro Chemical Units (ECU), and pressure on caustic soda production due to lower downstream uses of chlorine. The ratings also take note of the envisaged expansion of caustic soda and PVC – O pipes capacity in CAL and proposed large debt-funded green-field project under its wholly-owned subsidiary and expected funding support from CAL.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Commencement of operations on the enhanced capacity and achieving envisaged TOI on the new capacity
- Sustained increase in profitability with return on capital employed (ROCE) over 15% on sustained basis

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Drop in ECU realization leading to significant reduction in cash accruals
- Any other large debt-funded expansion or exposure to group companies resulting in leverage levels exceeding 0.75x on a consolidated basis
- Delay in execution of projects

Detailed description of the key rating drivers

Key Rating Strengths

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

Long track record of operations: The company's Pondicherry plant has a track record of 35 years in the production of caustic soda. Capacity utilisation levels have increased from 83-85% levels till FY20 to 96% in FY21 (refers to the period April 1 to March 31). The company has commenced the operation of PVC - O (Molecularly Oriented Poly Vinyl Chloride) – Pipe production line in Sricity, Andhra Pradesh, from December 2018.

Diversification in product profile: CAL has diversified its product profile beyond chemicals and has PVC-O pipes in its offerings. The company derives around 75% of its income from Chlor-alkali segment and the rest is derived from the PVC-O pipes segment. In Chlor-Akali segment, the company reported a revenue of Rs. 134 crore with a PBILDT margin of 12% in FY21, while this has improved to 21% in Q1FY21 on a revenue of Rs. 37 crore. In the PVC-O pipes segment, the company reported Rs.46 crore in revenue with a PBILDT margin of 18% in FY21 and Rs.9 crore in revenue with a PBILDT margin of 27% in Q1FY22.

Moderate diversification in clientele across various industries: CAL's chlor-alkali find application across various industries like textiles, FMCG, alumina, petrochemicals, acids & chemicals, pharmaceutical and paper industries. CAL's clientele is diversified across these industries. While the prices have remained volatile, the company's sales volume has been stable due to such diversification in industries. The company's major customers in PVC – O pipes segment currently are from the private sector mainly farmers' associations for irrigation projects and the company can supply its pipes to EPC contractors who are undertaking water supply-related government projects as well.

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

Multiple capital expenditure Projects: The company has concluded the projects for expansion of caustic soda from 125 TPD to 155 TPD in April 2021 and expansion of second line of PVC-O pipes plant to 6000 MT in March 2021. The company is going to expand its caustic soda further to 200 TPD with a cost of about Rs.25 crore which will conclude in FY22. Necessary approvals and sanctions have already been obtained. The company has further plans to expand the caustic soda plant to 300 TPD, which is contingent on receipt of approvals. The cost for this is expected to be around Rs.70-75 crore. On the PVC pipes segment, the company plans on putting up one more line of 3000 MTPA of O-PVC pipes which is also contingent on the absorption of the existing capacity of 6000 MT.

Project under wholly-owned subsidiary: The company is planning to set-up an integrated greenfield project in Karaikal under its wholly-owned subsidiary, Chemfab Alkalis Karaikal Limited (CAKL). The project envisages 200 TPD caustic soda capacity along desalination plant and production of chlorine derivative (aluminium chloride). The project is to be implemented in phases with Aluminum Chloride unit to be set up in the first phase with a capacity of 10000 TPA. The first phase of aluminium chloride plant is about Rs.50 crore which is expected to be commissioned Q3FY23. The total project cost is expected to be around Rs.350 crore out of which about 20% is to be funded through equity and rest through debt. CAL has already infused Rs.8 crore in the subsidiary and subsequent investments is expected in concurrence with project progress.

Key Rating Weaknesses

Volatile ECU realisations putting pressure on profitability margins: CAL's profitability margins are also exposed volatile ECU realisations. As the chlor-alkali and inorganic chemicals are commodity by nature, the prices are governed by international and domestic demand/supply conditions. In the Chlor-Alkali segment alone, the company saw a revenue drop of 14% as caustic soda realisations reported a drop of 29% in FY21.

A major parameter determining the profitability for caustic soda division apart from prices, is the power cost. CAL's power supply is fairly stable and cost is lower owing reliance on the grid power from the Union Territory of Puducherry.

Competition from established players: CAL is relatively a small player in the caustic soda market and faces competition from the other large domestic players apart from the competition from imports. However, the competition is limited in south India with fewer players.

Prospects:

The outlook for the domestic caustic soda industry is likely to be stable in the near-term mainly on account of continued demand from its key end-use industries and uptick in realisation from Q1FY22. The PVC-O pipes industry demand is expected to grow driven by public-sector projects undertaken by the central, state and municipal-level bodies.

Going forward, the company along with its subsidiary has large capital expenditure plans which would require an outflow for the CAL. While CAL had a drop in profits and accruals in FY21, CARE Ratings expects the company to improve its internal generation over the next few years with revival in ECU realisations. Also, critical to CAL's ability to generate internal funds to support the expansion and investments would be the profitable scaling up of the PVC-O pipes business. With low existing debt levels, the leverage position is expected to remain comfortable on a consolidated basis in the medium term.

Liquidity: Strong

The liquidity position of CAL is marked by comfortable accruals, six days of operating cycle and minimal usage of its cash credit facilities. The company had a cash and current investments of Rs.23 crore as on March 31, 2021.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning outlook and credit watch 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](#)

[Liquidity Analysis of Non-financial Sector Entities](#)

About the Company

Chemfab Alkalis Limited has been operational from 1983. Prior to March 2017, the sodium chlorate plant was under "Teamec Chlorates Limited" (TCL) which was operational from 2012. Teamec acquired Chemfab Alkalis Limited with effect from March 30, 2017, and subsequently changed its name to CAL in July 2017. CAL has currently suspended the operations of sodium chlorate plant.

As of April 2021, CAL has an installed capacity of 155 TPD of caustic soda in Pondicherry and 6000 MTPA of PVCO-Pipes Plant in Sricity (Andhra Pradesh). CAL also produces chlorine, hydrogen, sodium hypo chlorite, and hydro chloric acid as by-products from manufacture of caustic soda.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	204.92	180.58
PBILDT	55.98	28.86
PAT	25.57	-8.03
Overall gearing (times)	0.16	0.12
Interest coverage (times)	15.77	10.41

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

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

Complexity level of various instruments rated for this company: Annexure 4

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		-	-	-	20.00	CARE A2+
Fund-based - LT-Cash Credit		-	-	-	20.00	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - ST-BG/LC	ST	20.00	CARE A2+	-	1)CARE A2+ (16-Oct-20)	1)CARE A2+ (26-Sep-19)	1)CARE A2+ (07-Aug-18)
2	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A-; Stable (16-Oct-20)2)Withdrawn (16-Oct-20)	1)CARE A-; Stable (26-Sep-19)	1)CARE A-; Stable (07-Aug-18)
3	Fund-based - LT-Cash Credit	LT	20.00	CARE A-; Stable	-	1)CARE A-; Stable (16-Oct-20)	1)CARE A-; Stable (26-Sep-19)	1)CARE A-; Stable (07-Aug-18)

*Long Term / Short Term

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

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank Lender Details for this Company

To view the lender-wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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