# TGV SRAAC Limited

October 06, 2022

**Ratings**

| Facilities | Amount (₹ crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 139.32<br>(Reduced from 183.03) | CARE A; Positive<br>(Single A; Outlook: Positive) | Revised from CARE A-; Stable<br>(Single A Minus; Outlook: Stable) |
| Long-term/Short-term bank facilities | 259.11<br>(Reduced from 346.68) | CARE A; Positive / CARE A1<br>(Single A; Outlook: Positive/ A One) | Revised from CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable / A Two Plus) |
| Short-term bank facilities | 24.20 | CARE A1<br>(A One) | Revised from CARE A2+<br>(A Two Plus) |
| **Total bank facilities** | **422.63<br>(₹ Four hundred twenty-two crore and sixty-three lakhs only)** | | |

Details of facilities in Annexure-1.

**Detailed rationale and key rating drivers**

The revision in ratings assigned to the bank facilities of TGV SRAAC Limited (SRAAC) factors significant improvement in its total operating income (TOI) and profitability during FY22 (refers to the period April 1 to March 31) and Q1FY23 aided by buoyant chlor-alkali industry scenario along-with higher contribution from expanded chloromethane capacity resulting in improvement in its leverage and debt coverage indicators.

The ratings continue to derive strength from its experienced promoters, integrated manufacturing plant with proven track record in manufacturing of chlor-alkali products, captive power arrangement leading to relatively better control over its power cost, established relationship with key clients and suppliers, diversified end user industries and synergies derived from group companies. The ratings are, however, constrained by its susceptibility to volatility in prices of its raw material and sales realization, its presence in an inherently cyclical caustic soda industry and exposure to stringent pollution control and fire safety norms.

**Rating sensitivities**

**Positive factors – Factors that could lead to positive rating action/upgrade:**

- Improvement in scale of operations marked by TOI of more than ₹2,000 crore while achieving PBILDT margin of more than 20%
- Improvement in its total debt/ PBILDT to less than 1 time on sustained basis
- Ability to significantly reduce its power & fuel cost which is one of the major cost components by timely expanding its renewable power capacity

**Negative factors – Factors that could lead to negative rating action/downgrade:**

- PBILDT margin falling below 15% on a sustained basis
- Heavy dumping of caustic soda products significantly impacting its Electro Chemical Unit (ECU)[2] realizations
- Any tightening of prevailing pollution control/ environmental norms and/or regulatory ban on production and sales of certain major products thereby significantly impacting its business and profitability
- Significantly more than envisaged debt funded capex/investments leading to its total debt/ PBILDT exceeding 2 times on a sustained basis

**Outlook:** Positive

The 'Positive' outlook on the long-term rating of SRAAC factors expectation of continued favorable industry scenario leading to further improvement in leverage and debt coverage indicators of the company going forward.

*[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications*

*[2]Caustic soda, chlorine and hydrogen are co-products and hence ECU refers to weighted average realizations of the above co-products*

**Detailed description of the key rating drivers**

**Key rating strengths**

**Integrated operations; and improved operational performance backed by buoyant industry scenario:** The operations of SRAAC are highly integrated with by-product of one process being used as raw material for another product, enabling the company to optimally utilize its production capacity. This also protects the company from the effects of cyclicality in the demand for its certain products to some extent, given a diversified product basket. The operational performance of the company improved significantly during FY22 backed by nearly 80% utilisation of its caustic soda capacity and near full utilisation of its expanded capacity of chloromethane products on the back of improved industry scenario. On the back of higher capacity utilisation along with high sales realization, its scale of operations improved significantly by about 50% in FY22. Its caustic soda and chloromethane plants continued to operate at full capacity utilisation in Q1FY23, which is expected to sustain for the remainder of FY23.

**Steps to gain better control over power cost as it is a key component of cost of production of caustic soda:** The caustic soda industry is highly power intensive whereby power cost constitutes around 40% of the cost of sales. To reduce its power cost, the company undertook modernization of caustic soda division which resulted in lower power and steam consumption. This apart, the company increased its power procurement from Andhra Pradesh Gas Power Corporation Limited (APGPCL), through additional equity investment of ₹76.90 crore for additional share of 31.60 MW. Given the significant jump in energy and fuel costs during FY22, the company was able to reasonably control the increase in its average cost of power at ₹6.30 per kWh during FY22 as against ₹4.78 per kWh during FY21, and it still remained reasonably under control. The company has already established 14MW solar power plant out of the 20MW solar power plant in the first phase and is in the process of setting up another 20MW solar power plant by FY23 in the second phase to increase the contribution of captive and cheaper source of renewable energy in its power cost which is likely to augur well for its long-term prospects.

**Established relationship with key clients and benefits of diversified end user industry application:** The company has long and established manufacturing track record of almost four decades in manufacturing of chemicals. Over the years, SRAAC has established long term relationship with more than 200 clients. The products of the company have varied application across diverse range of industries including textile, pulp & paper, alumina, soaps & detergents, petroleum, fertilizers, pharmaceuticals, agrochemicals, water treatment, etc., Further, internally caustic soda is used for castor oil preparation, soap noodles, chloromethane operation. Furthermore, SRAAC also benefits from the synergies brought about by presence of group companies in related businesses wherein it procures certain raw material from its group entities (around 12% of total raw material consumed during FY22) and sells some of its finished products to group concerns (9% of net sales in FY22).

**Significant improvement in profitability, likely to sustain in the short-term:** On the back of improved capacity utilisation of its key products coupled with buoyant chlor-alkali industry scenario, sales realization of its products improved significantly during FY22. It resulted in improvement in its PBILDT margin to 21.11 % during FY22 vis-à-vis 15.17% during FY21. Its PBILDT margin improved further to 30.67% in Q1FY23 on the back of peaking of caustic soda sales realization. This high level of its operating profitability is likely to sustain in FY23.

**Improvement in capital structure and debt coverage indicators; expected to further improve in medium-term:** Upon significant improvement in operating profitability during FY22 and Q1FY23, SRAAC has rationalized its debt level leading to improvement in its capital structure marked by overall gearing of 0.62 times as on March 31, 2022 vis-à-vis 0.82 times as on March 31, 2021. SRAAC has further prepaid large part of its long-term debt in 5MFY23. Improved capital structure along-with healthy operating profitability has led to improved debt coverage indicators marked by Total debt /PBILDT of 1.43 times during FY22 vis-à-vis 3.25 times during FY21. On the back of expected healthy operating profitability during FY23 and pre-payment of debt, its capital structure and debt coverage indicators are likely to improve further by end-FY23.

**Experienced promoters:** SRAAC is promoted by Mr. T G Venkatesh who is a commerce graduate and hails from an industrial and political background. He pioneered TGV group and diversified the group from manufacturer of industrial chemicals to other business divisions like health care products, aqua culture, real estate, pharmaceuticals and hospitality. SRAAC is the flagship company of the group.

**Liquidity:** Adequate

The liquidity of the company is adequate marked by sufficient accruals vis-a-vis very low term debt repayment obligations post prepayment of significant amount of its term debt in 5MFY23. The operating cycle of the company stood comfortable at 7 days in FY22 due to credit period allowed by the creditors. However, the creditors are LC backed and hence result in higher reliance on non-fund-based limits, also the average utilization of fund based working capital limits remained relatively high at 69% for the trailing twelve months ended August 2022 mainly because of lower amount of fund-based working capital limits vis-à-vis its scale of operations. However, the liquidity of the company is supported by the positive cash flows from operations amounting to ₹189 crore during FY22. With an overall gearing of 0.62 times as on March 31, 2022, it has sufficient gearing headroom to raise any additional debt for its capex or working capital requirement, if required.

**Key rating weaknesses**

**Presence in an inherently cyclical caustic soda industry:** The caustic soda industry is inherently cyclical. The industry witnessed a cyclical downturn after H1FY20, which was further exacerbated during FY21 owing to the COVID-19 pandemic related contraction in demand from major end-use industries. ECU realisations dropped to a decadal low level of around ₹23,000 per metric tonne (MT) in FY21. However, from March 2021 onwards, the sector has seen revival with an improvement in demand from end-user industries and better availability of raw materials, leading to a rebound in the ECU realisations to around ₹60,000 per MT currently, which augurs well for TGV SRAAC. However, there persists a continuous threat of industrial downturn in such a commoditized chemical industry like caustic soda which poses a threat to the profitability of the company.

**Exposure to raw material price volatility and foreign currency fluctuation risk:** The primarily raw materials for SRAAC are potassium chloride, palm fatty acid and related oils, castor oil etc., which form around 20% - 25% of the cost of production. The key raw materials are price sensitive and highly volatile. Thus, its profitability is susceptible to volatility in prices of raw materials. Further, majority of its raw material are imported. During FY22, SRAAC imported raw materials and capital goods worth ₹113.93 crore (₹187.00 crore in FY21) against which it made exports of ₹28.81 crore in FY22 (₹58.26 crore in FY21), thus only partially hedging its foreign currency exposure naturally, thereby exposing it to forex risk. Further, lag between change in the raw material price and reset of finished good price impacts the profitability of the company.

**Stringent pollution control and fire safety norms:** Being present in the chemical industry, the operations of the company are subject to various environment-related regulatory compliances in a stringent manner. Also, pollution and fire safety-related norms are evolving day-by-day in India. Accordingly, continuous adherence to defined norms are mandatory for seamless operations. The company is continuously taking steps towards adherence of these norms, further, to reduce the use of its carbon footprint, company is gradually expanding its renewable power portfolio.

**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**
**Liquidity Analysis of Non-financial sector**
**Rating Methodology-Manufacturing Companies**
**Financial ratios-Non- Financial Sector**

**About the company**

Incorporated on July 24, 1981, SRAAC belongs to the TGV Group of industries promoted by Mr. T G Venkatesh. SRAAC is primarily engaged in the business of manufacturing chemicals like caustic soda, caustic potash, sodium hypochlorite, chlorine, hydrochloric acid, hydrogen gas, chloromethane products etc. The company also manufactures castor oil derivatives, fatty acids & consumer products-majorly toilet soaps and is also into power generation. The plant is certified by ISO 9002, ISO 14001 and OHSAS 18001 system certification.

| Brief Financials – Standalone (₹ crore) | FY21 (A) | FY22 (A) | Q1FY23 (Prov.) |
|---|---|---|---|
| Total operating income | 1,012.36 | 1,525.32 | 596.99 |
| PBILDT | 153.56 | 321.97 | 183.11 |
| PAT | 53.43 | 134.53 | 147.74 |
| Overall gearing (times) | 0.82 | 0.62 | 0.44 |
| Interest coverage (times) | 3.22 | 6.31 | 14.35 |

A: Audited; Prov.: Provisional; Financials are classified as per CARE Ratings' standards.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Annexure-2

**Covenants of the rated instruments/facilities:** Not applicable

**Complexity level of the various instruments rated for this company:** Annexure-3

**Annexure-1: Details of facilities**

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | - | - | - | March 31, 2027 | 97.41 | CARE A; Positive |
| Fund-based - LT-Working Capital Demand loan | - | - | - | - | 5.52 | CARE A; Positive |
| Fund-based - LT-Cash Credit | - | - | - | - | 36.39 | CARE A; Positive |
| Fund-based - ST-Bill Discounting/ Bills Purchasing | - | - | - | - | 12.65 | CARE A1 |
| Fund-based - ST-FBN / FBP | - | - | - | - | 0.80 | CARE A1 |
| Fund-based - ST-Bill Discounting/ Bills Purchasing | - | - | - | - | 10.75 | CARE A1 |
| Non-fund-based - LT/ ST-Letter of credit | - | - | - | - | 245.06 | CARE A; Positive / CARE A1 |
| Non-fund-based - LT/ ST-Bank Guarantee | - | - | - | - | 14.05 | CARE A; Positive / CARE A1 |

**Annexure-2: Rating history for the last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1 | Fund-based - LT-Term Loan | LT | 97.41 | CARE A; Positive | - | 1)CARE A-; Stable (31-Dec-21) | 1)CARE A-; Negative (18-Jan-21)<br><br>2)CARE A-; Negative (23-Dec-20) | 1)CARE A-; Negative (09-Oct-19) |
| 2 | Fund-based - LT-Working Capital Demand loan | LT | 5.52 | CARE A; Positive | - | 1)CARE A-; Stable (31-Dec-21) | 1)CARE A-; Negative (18-Jan-21)<br><br>2)CARE A-; Negative (23-Dec-20) | 1)CARE A-; Negative (09-Oct-19) |
| 3 | Fund-based - LT-Cash Credit | LT | 36.39 | CARE A; Positive | - | 1)CARE A-; Stable (31-Dec-21) | 1)CARE A-; Negative (18-Jan-21)<br><br>2)CARE A-; Negative (23-Dec-20) | 1)CARE A-; Negative (09-Oct-19) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 4 | Fund-based - ST-Bill Discounting/ Bills Purchasing | ST | 12.65 | CARE A1 | - | 1)CARE A2+ (31-Dec-21) | 1)CARE A2+ (18-Jan-21)<br><br>2)CARE A2+ (23-Dec-20) | 1)CARE A2+ (09-Oct-19) |
| 5 | Fund-based - ST-FBN / FBP | ST | 0.80 | CARE A1 | - | 1)CARE A2+ (31-Dec-21) | 1)CARE A2+ (18-Jan-21)<br><br>2)CARE A2+ (23-Dec-20) | 1)CARE A2+ (09-Oct-19) |
| 6 | Fund-based - ST-Bill Discounting/ Bills Purchasing | ST | 10.75 | CARE A1 | - | 1)CARE A2+ (31-Dec-21) | 1)CARE A2+ (18-Jan-21)<br><br>2)CARE A2+ (23-Dec-20) | 1)CARE A2+ (09-Oct-19) |
| 7 | Non-fund-based - LT/ ST-Letter of credit | LT/ST* | 245.06 | CARE A; Positive / CARE A1 | - | 1)CARE A-; Stable / CARE A2+ (31-Dec-21) | 1)CARE A-; Negative / CARE A2+ (18-Jan-21)<br><br>2)CARE A-; Negative / CARE A2+ (23-Dec-20) | 1)CARE A-; Negative / CARE A2+ (09-Oct-19) |
| 8 | Non-fund-based - LT/ ST-Bank Guarantee | LT/ST* | 14.05 | CARE A; Positive / CARE A1 | - | 1)CARE A-; Stable / CARE A2+ (31-Dec-21) | 1)CARE A-; Negative / CARE A2+ (18-Jan-21)<br><br>2)CARE A-; Negative / CARE A2+ (23-Dec-20) | 1)CARE A-; Negative / CARE A2+ (09-Oct-19) |

*Long term/Short term

**Annexure-3: Complexity level of various instruments rated for this company**

| Sr. No. | Name of Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - LT-Cash Credit | Simple |
| 2 | Fund-based - LT-Term Loan | Simple |
| 3 | Fund-based - LT-Working Capital Demand loan | Simple |
| 4 | Fund-based - ST-Bill Discounting/ Bills Purchasing | Simple |
| 5 | Fund-based - ST-FBN / FBP | Simple |
| 6 | Non-fund-based - LT/ ST-Bank Guarantee | Simple |
| 7 | Non-fund-based - LT/ ST-Letter of credit | Simple |

**Annexure-4: Bank lender details for this company**

To view the lender wise details of bank facilities please click here

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

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