Punjab Alkalies and Chemicals Limited

June 08, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	97.51	CARE BBB- (CWD) (Triple B Minus) (Under Credit watch with Developing Implications)	Revised from CARE BB+ (Double B Plus); Continues to be on Credit watch with Developing Implications
Long Term / Short Term Bank Facilities	20.00	CARE BBB- / CARE A3 (CWD) (Triple B Minus / A Three) (Under Credit watch with Developing Implications)	Revised from CARE BB+ / CARE A4+ (Double B Plus / A Four Plus); Continues to be on Credit watch with Developing Implications
Total Bank Facilities	**117.51 (Rs. One Hundred Seventeen Crore and Fifty-One Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to bank facilities of Punjab Alkalies and Chemicals Limited (PACL) takes into account improvement in operational and financial risk profile of the company during FY22 (refers to the period April 01 to March 31) characterised by growth in total operating income and more than expected improvement in profitability margins on account of improved realizations and management's efforts to reduce the cost. The ratings continue to derive strength from experience of the promoters in chlor alkali industry, operational track record of more than 3 decades marked by healthy capacity utilisation and moderate diversification of clientele across various end user industries. The ratings also continue to take comfort from comfortable capital structure and locational advantage of the plant. The ratings, however, continue to remain constrained by the project risk associated with the ongoing capex and inherent volatility in Electro Chemical Unit (ECU) realizations of caustic soda leading to volatility in margins over the past 5 years. The ratings also takes note of the susceptibility of profitability to adverse movement in power cost and threat of cheaper imports from foreign countries and competition with established integrated players in an inherently cyclical caustic soda industry.

The ratings continue to remain under 'credit watch with developing implications' in view of the ongoing acquisition of promoter group company Flow Tech Chemicals Private Limited and proposed amalgamation of promoter group entities VS Polymers Pvt. Ltd. and Prayag Chemicals Pvt. Ltd. with PACL which are under various stages of approvals. CARE would keep a close watch on the developments and take an appropriate rating action once clarity emerges on the same.

Rating Sensitivities

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

- Significant growth in its scale of operations marked by total operating income (TOI) of more than Rs. 650 crore along with PBILDT margins above 20% on a sustained basis.
- Timely commissioning of the new projects within envisaged time and cost and achieve envisaged profitability margins despite cyclicality in caustic soda industry.
- Completion of 100% acquisition of Flowtech Chemicals and proposed amalgamation of group companies in a timely manner.

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

- Any higher than envisaged large debt-funded expansion or higher than envisaged exposure towards group companies resulting in leverage levels exceeding 1.00x
- Any time or cost overrun in execution of ongoing capex projects
- Heavy dumping of caustic soda products from foreign countries significantly impacting its ECU realization leading to significant impact on profitability margins, gross cash accruals and debt coverage indicators.
- Any tightening of prevailing pollution control/ environmental norms and/or regulatory ban on production & sales of certain major products thereby significantly impacting its business and profitability

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in overall financial risk profile during FY22

The company has reported improvement in overall financial profile during FY22 characterised by healthy growth in total operating income, profitability and debt coverage indicators. The company reported 92.35% growth in total operating income during FY22 largely on account of higher volumes and ECU realizations. The EBIDTA margin of the company improved

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

significantly from 9.23% in FY21 to 21.00% in FY22 on account of better ECU realizations coupled with lower power and fuel cost. During FY22, the capital structure of the company improved and remained comfortable with an overall gearing of 0.42x as on March 31, 2022 as compared to 0.72x as on March 31, 2021 on account of increase in tangible networth due to issue of equity shares during the year at a premium coupled with accretion of profits to reserves. Although, the capital structure of the company is expected to moderate over medium term owing to expected availment of debt to complete its on-going capex, however the same is expected to be supported by improved profitability on the back of reduction in power, transportation and employee costs due to management's focus on cost control.

Consistent operational performance in chlor-alkali industry marked by healthy capacity utilization
The company has an operational track record of more than 3 decades in chlor alkali industry. The company has maintained consistently healthy capacity utilisation of more than 85% for its caustic soda unit over the past six years. The capacities of byproducts Chlorine, Hydrogen Chloride, Sodium Hypo Chlorate and Hydrogen are not fixed and will vary depending upon the product mix. The disposal of chlorine is a major issue faced by industry which is supposed to be mitigated by the company with planned acquisition and amalgamation of group companies in near future as these group companies manufacture chlorinated Paraffin wax and hydro chloric Acid which utilize chlorine as a byproduct. The company is also undergoing expansion of its plant by increasing the Caustic production from 300 TPD to 500 TPD and setting up of downstream product units.

Experienced promoters and management
The company was promoted by Punjab State Industrial Development Corporation (PSIDC) in 1975, which disinvested its 33% stake in Q3FY21- (refers to the period October 01 to December 31). In Oct 2020, the promoters of Flowtech Group have acquired the stake in PACL from open market. Established in 1993, Flow Tech Group is a pioneer in manufacturing Chlorinated Paraffin and Hydrochloric Acid. The manufacturing facilities of Flowtech Group are set up at prominent locations in Punjab, Haryana and West Bengal. The management of the company has changed from nominee directors of PSIDC to Mr. Sukhbir Singh Dahiya, Mr. Jagbir Singh Ahlawat and Mr. Naveen Chopra who have several decades of experience in chemical industry.

Locational advantage of the plant owing to close proximity to power and water supply which are critical inputs for smooth functioning of plant
The units of PACL are located at Naya Nangal in District Ropar, Punjab. PACL has locational advantage owing to easy access to end users in the vicinity as well as close proximity to Bhakra Left Bank Power Generating station providing uninterrupted power supply and River Sutlej as a continuous water supply source, both of which are critical inputs for smooth functioning of plant. The road as well as rail connectivity to the plant is also good as the company is having its own railway siding and presently salt is being transported from Gujarat directly to PACL factory which reduces the transportation cost. Due to its strategic location, it can cost-effectively cater to not only the market of northern India but also into the farther reaches of the country.

Moderate diversification of client across various end user industries
The products of PACL finds application across various industries like Paper, textiles, Detergent, FMCG, Paint, Chemicals and Pharmaceutical industries. The company has a healthy relationship with customers and receives repeat orders from them. The payment from the customers is normally received within 15-30 days.

Key Rating Weaknesses
Inherent volatility in ECU realization of caustic soda and its byproducts leading to volatile margins over the past 5 years
With presence in a cyclical industry, the company faces high volatility in the realisations of caustic soda which have led to volatility in profitability margins over the past 5 years. The ECU realisations fell close to their low of around Rs.27,732/MT during FY21 vis-à-vis the highs of around Rs.39,701/MT in FY22. However, any substantial drop in ECU realizations leading to reduction in gross cash accruals would remain a key rating sensitivity.

Large size ongoing capacity expansion and power projects with large funding commitment from internal accruals
The company is setting up a captive power plant of 35 MW capacity. The total cost of the project is estimated at Rs.110 crore for which company has already achieved the financial closure. The project is expected to be commissioned by Sep 30, 2022. As on April 30, 2022, the company has incurred Rs. 88.38 crore on the power project which is funded by Rs. 45 crore equity, term debt of Rs. 30.93 crore and remaining through cash accruals. The company is also undergoing expansion of its plant by increasing the Caustic Soda production from 300 TPD to 500 TPD. The total project cost is expected to be Rs. 62 crore which will be funded through debt of Rs. 40 crore and remaining from internal accruals. The project is expected to be commissioned by June 30, 2022. As on May 19, 2022, the company has incurred Rs. 50 crore on the project which is being funded by Rs. 28 crore of term loan and remaining through internal accruals. Apart from these projects, the company is also undergoing expansion of its existing product portfolio by adding new products like Flaker and Stable Bleaching Powder. The estimated total project cost is Rs. 40 crore in case of flaker project and Rs.36 crore in case of bleaching powder project. The company proposes to fund the same by taking Rs. 50 crore of debt and remaining through cash accruals. As on May 26, 2022, the company has already incurred Rs. 10 crore in case of flaker project and Rs. 17 crore in case of bleaching powder project which has been funded with cash accruals. The financial closure is yet to be achieved for these projects. Any higher than envisaged debt funded capex or any time and cost overrun in ongoing projects shall remain key monitorable.

Susceptibility of profitability to adverse movement in power cost and threat of cheaper imports from foreign countries
The profitability of PACL is susceptible to adverse movement in power cost since electrolysis is an energy intensive process and power cost constitutes a significant part of its cost structure. However, the power consumption has reduced in FY22 due to peak load incentive provided to company for high capacity utilisation. Further the power tariff has reduced from Rs.6.09 per unit in FY21 to Rs.5.93 per unit in FY22 due to reduction in electricity duty as per Industrial Policy thereby resulting in saving of power cost.

Competition with established integrated players and presence in an inherently cyclical caustic soda industry
With the presence of large established players like Gujarat Alkalis and Chemicals limited, DCM Shriram Limited, Grasim Industries Limited etc. and cheaper imports, the market is highly competitive. Large number of players in the industry leads to high competition amongst the existing players. Larger organized players are better placed in the market due to their superior quality, brand name, and their ability to negotiate better prices with the suppliers of raw materials. Caustic soda industry is an inherently cyclical industry wherein sales realization of companies in caustic soda manufacturing had improved significantly during FY18 & FY19 and then it had started softening from FY20. By end of FY21, ECU realizations had declined to a decade low level mainly on the back of Covid 19 pandemic whereby demand from end- use industries had been severely impacted. However, the realization have improved significantly during FY22.

Liquidity: Adequate
The liquidity position of PACL is adequate as the company has expected gross cash accruals of more than Rs.90 crore as against repayment obligations of Rs. 8.13 crore in FY23. The average working capital utilisation for the past 12 months ended April 2022 stood at 12.89%. The company had free cash and cash balances of close to Rs. 20.00 crore as on May 11, 2022.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the Company
Incorporated in December 1975, the company is promoted by PSIDCL which disinvested its 33% stake in Q3FY21. In Oct 2020, the promoters of Flowtech Group have acquired the stake in PACL from open market and held a 31.35% stake in the company as on March 31, 2022. PACL commenced its operations at Naya Nangal, Roopnagar, Punjab in January 1984. The company mainly manufactures Caustic Coda Lye which is widely used in industries like soap, paper, dyes, chemicals and plastic. The other products like Liquid Chlorine, Hydrochloric Acid, Sodium Hypochlorite, etc. are the by-products of the manufacturing process. The Company has two manufacturing units viz. unit-I (100TPD) & II (200 TPD) both are located in one premises at Nangal-Una Road, Naya Nangal, District Ropar, Punjab and the company is planning to increase the total capacity to 500 TPD in phased manner till June 30, 2022. The units are spread over an area of approximately 89 acres. Both the units are based on membrane cell technology. The present combined plant capacity is 425 TPD of Caustic Soda.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (A)
Total operating income	292.92	242.92^	466.70
PBILDT	15.32	2.45^	98.01
PAT	8.80	8.24	56.72
Overall gearing (times)	1.13	0.72	0.42
Interest coverage (times)	2.97	0.46	11.11

A: Audited
^Adjusted for miscellaneous income of Rs. 14.13 crore which includes GST incentive and insurance claim

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Not Applicable

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

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
Fund-based - LT-Term Loan		-	-	Sep 2028	97.51	CARE BBB- (CWD)
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	20.00	CARE BBB- / CARE A3 (CWD)

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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	97.51	CARE BBB- (CWD)	-	1)CARE BB+ (CWD) (17-Mar-22) 2)CARE BB+ (CWD) (17-Jan-22)	-	-
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	20.00	CARE BBB- / CARE A3 (CWD)	-	1)CARE BB+ / CARE A4+ (CWD) (17-Mar-22) 2)CARE BB+ / CARE A4+ (CWD) (17-Jan-22)	-	-

* 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-Term Loan	Simple
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure 4: 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 Ratings Ltd. 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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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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