Tamilnadu Petroproducts Limited

December 09, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term Bank Facilities	176.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Long-term / Short-term Bank Facilities	98.00 (Enhanced from 63.00)	CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Revised from CARE A; Stable / CARE A1 (Single A; Outlook: Stable / A One)
Total Bank Facilities	**274.00 (₹ Two Hundred Seventy-Four Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Tamilnadu Petroproducts Limited (TPL) takes into account the better than envisaged performance of the company with significant growth in the revenue and accruals during the last two years primarily aided by higher sales realisations across all product segments. While the margins are expected to correct to pre-covid levels going forward, the strong accruals during the last two years have aided in considerable strengthening of the financial profile and liquidity position of the company. The ratings continue to take comfort from the long track record and integrated nature of operations of the company and its established market position in the domestic LAB market backed by firm off-take tie-ups with major Fast-moving consumer goods (FMCG) companies. The ratings also take note of the proposed capacity expansion program which is partly debt funded.

The ratings are, however, constrained by the significant dependence on a single product and end-user industry, commoditised nature of the business with limited pricing flexibilities, competitive nature of the industry and threat from imports.

Rating sensitivities

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

- Consistent increase in scale of operations beyond ₹ 3000 crore
- Sustained improvement in the PBILDT margins above 15%
- Reduction in group exposure

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

- Any delay in execution of the on-going expansion program or stabilization and scaling up of operations post completion of the capacity expansion program.
- Increase in leverage marked by overall gearing exceeding 0. x and deterioration in liquidity position which is presently marked by healthy cash balances
- Any adverse outcome from the disputed charge under group captive scheme.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of operations : TPL is a part of the AM International group, which has nearly five decades of operational track record in the petrochemicals and allied industries. TPL has been in operations for more than three decades, and has three major divisions, namely, Linear Alkyl Benzene (LAB), Heavy Chemical Division (HCD) and Propylene Oxide (PO), with LAB contributing to 79% of the revenue in FY22 (refers to the period April 1 to March 31), while HCD and PO contribute to 12% and 9%, respectively.

Established market position backed by strong relationships with reputed clientele: TPL is one of the leading manufacturers (about 15% of domestic capacity) of LAB in the domestic market and the only manufacturer in South India. With decades of track record, the company has strong relationships with reputed players in the FMCG industry for LAB. TPL enters into

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

firm off-take agreements with major FMCG players under annual contracts where prices are fixed on a monthly basis based on international prices of key raw materials.
Apart from LAB, TPL has also established long-standing relationship with its clientele for the HCD division. In the HCD division, the company manufactures caustic soda and its by-product, Chlorine. Propylene Oxide (PO), manufactured by TPL since January 2019, is entirely sold to its group company, MPL.

Integrated nature of operations: On the LAB business, one of the major raw materials required for manufacturing LAB is N-Paraffin (NP). TPL has an in-house facility to manufacture NP, which provides cost competitiveness against imported NP. With the backward integration, the import dependency of N-Paraffin has been gradually scaled down Since LAB is also a continuous process unit, the company has own power plant for captive consumption without depending on grid power for mitigating any volatility in power supply. LAB plant has been operating at a consistently high utilisation of 80%-90% in the last three years which is the highest possible in this unit. In the HCD business, major by-product in the production of caustic soda is chlorine. With the inhouse Propylene Oxide (PO) plant using the hydrochlorination process for manufacturing, there is an increase in the captive consumption of chlorine thereby also improving capacity utilisation of Caustic Soda from 42% in FY17 to 78% in FY22. The integrated nature of operations supports the company in achieving sustained operating efficiency.

Significant jump in revenue and accruals: The company's Total Operating Income (TOI) has grown at CAGR of 15% over that past 5 years ended FY22. Barring FY20 and FY21 which were impacted by COVID and drop in caustic soda realisations, the company has been posting steady y-o-y growth in TOI. There has also been a significant jump of more than 50% in TOI seen in FY22 largely backed by increase in the demand and realisations in LAB due to global supply chain issues. Given the favorable market scenario coupled with lower input costs in FY22, the PBILDT margins have almost doubled from the normal average of 7-8% to around 14% during the last two years. Nevertheless, with the situation easing in the current year, the PBILDT margins have corrected to pre-COVID levels and is expected to continue at similar levels. During H1FY23, the company recorded a TOI of ₹ 1159 crore which is almost 65% of the TOI in FY22.

Progress in expansion project: In LAB division, the company has proposed to increase the capacity from 120,000 MTPA to 145,000 MTPA at an estimated cost of around ₹ 235 crore. In HCD division, TPL proposes to replace the current mono-polar membrane technology to a Bipolar membrane technology with a new 250 TPD Cell House with an electrolyzer. This is expected to be done at an estimated cost of ₹ 165 crore.
The total project cost outlay for these expansions is about ₹ 400 crore, which is to be funded in the debt-equity ratio of 30:70, towards which a loan of ₹ 120 crore is already sanctioned. Both the projects are expected to be completed by Q3FY25.
While the project size is significantly large, the debt component in the project is limited and with a comfortable capital structure presently and available cash balance of about ₹ 257 crore as on September 30, 2022, the impact on capital structure is not expected to be significantly adverse. However, timely completion of the project, stabilization of the operation on the expanded capacity and offtake of the same would be key to company's prospects.

Comfortable capital structure: With healthy cash accruals aiding consistent increase in net worth base over the years, TPL continued to have low debt with no long-term debt as on September 30, 2022. The overall gearing remained comfortable at 0.09x as on March 31, 2022, as against 0.08x as on March 31, 2021.
The company has investments in subsidiary which stood at ₹ 96.45 crore as on September 30, 2022. This translated to 14% of the net worth of TPL as on March 31, 2022. These companies were incorporated more than a decade ago for some projects in South East Asia. These subsidiaries do not have any major assets or operations. Adjusting for the exposure in subsidiaries from the net worth, overall gearing continues to remain healthy at 0.09x as on March 31, 2022.

Key rating weaknesses
Concentration in product and end-user industry: The company's main product LAB is a crude derivative. While the company has presence in the HCD division and has recently commenced operations of its PO division, the dependence on LAB remains high at around 80%. LAB finds application in the FMCG segment and the company's customer profile is also hence concentrated within the FMCG space. The top five customers in the segment account for more than 90% of the sales in this division. However it may be noted, that the relationship shared with these customers have been for more than decades and there has been consistent business from these reputed players over the past years.

Limited pricing flexibility due to commoditised nature of products; however mitigated to a certain extent with price revisions: The company operates in a highly commoditised industry with limited product differentiation whose realisation is impacted by competition from both domestic and global suppliers, who are large integrated players in the petrochemical segment. TPL's margins are also exposed to the fluctuations in the price of key raw materials such as benzene and kerosene, the

prices of which are linked to crude oil prices. While over the long-term this is mitigated to a certain extent with the monthly price revisions based on average prices of key raw materials of previous month, any extreme variations in crude prices is still a concern on a short-term.
The HCD division is also a cyclical business, with prices exhibiting high level of volatility. A major cost determining the profitability for HCD division apart from raw materials, is the power cost. It is to be noted that with some process improvements, TPL has been making efforts to reduce the power consumption per ton of caustic soda produced since FY18. With the new technology in this division, power consumption is expected to go down further.
Notwithstanding the inventory management policies, firm off-take agreements at prices linked to the prices of major raw materials and integration benefits, the company's operating margins remain vulnerable to adverse movement in input costs and sales realisations.

Industry being highly competitive and threat from imports: With improved awareness of surfactants and detergent and availability of no major substitute for the product, the consumption of LAB has been going upwards in the past few quarters. At the same time, continuation of imports into the country is a constraint for the domestic LAB manufacturers in terms of pricing pressure. There is a supply-demand deficit due to increase in demand for home-care and cleaning chemicals while there is a lower level of investments in expansion of capacities of LAB. TPL is also embarking on an expansion program on the LAB division as the demand outlook would remain positive. Furthermore, while imports continue to remain a threat, but most buyers prefer dual sourcing models, and TPL is expected to benefit from the same by capitalizing on the existing relationship with its customers and tie up capacities in the near term.
On the caustic soda front, 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 like textiles, pulp and paper, aluminium, pharmaceuticals, agrochemicals, etc. After a dip during FY19-FY21, the prices saw a significant improvement in FY22, especially from H2FY22. However, there persists a continuous threat of industrial downturn in such a commoditised chemical industry like caustic soda, which poses a threat to the profitability of the companies in the industry. TPL is also embarking on a capacity expansion-cum-change of technology for the HCD division.

Liquidity: Strong

TPL makes payments to major suppliers within 2 weeks and the nature of industry and the customer profile (mostly MNCs) ensures a healthy collection period. The average working capital utilisation for the last 12 months ending October 2022 is modest at around 58%. The company has cash and bank balances of ₹ 257 crore as at September 30, 2022, with no long-term debt repayment obligations.

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

Tamilnadu Petrochemicals Limited (TPL), headquartered in Chennai, is a part of the AM International group of companies. TPL was set up in 1984 as a joint venture between SPIC Ltd and Tamil Nadu Industrial Development Corporation (TIDCO). The company has three divisions, namely, Heavy Chemicals Division (HCD), Linear Alkyl Benzene Division (LAB) and Propylene Oxide (PO). The LAB division is engaged in the manufacture of Linear Alkyl Benzene (LAB), which is a key input for the manufacture of detergents. Heavy Chemicals Division is engaged in the manufacture of caustic soda and chlorine (by-product of Caustic Soda). In FY19, TPL started manufacturing Propylene Oxide (PO). As of September 30, 2022, the company has an installed capacity 120,000 MTPA (Metric Tonne Per Annum) of LAB, 56,100 MTPA of Caustic soda and 15,000 MTPA of propylene oxide. The production facilities of TPL are located in Manali, an industrial suburb of Chennai.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (Prov.)
Total operating income	1,145.22	1,805.58	1,151.33
PBILDT	170.07	248.28	81.49
PAT	121.65	170.64	54.17
Overall gearing (times)	0.09	0.08	0.04
Interest coverage (times)	23.56	42.84	24.77

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	56.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	98.00	CARE A+; Stable / CARE A1+
Term Loan-Long Term		-	-	7 Years from first disbursement	120.00	CARE A+; Stable

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	Non-fund-based - LT/ ST-BG/LC	LT/ST*	-	-	-	-	-	1)Withdrawn (11-Sep-19) 2)CARE BBB+; Stable / CARE A3+ (11-Sep-19)
2	Fund-based - LT-Cash Credit	LT**	-	-	-	-	-	1)CARE BBB+; Stable (11-Sep-19) 2)Withdrawn (11-Sep-19)
3	Fund-based - LT-Cash Credit	LT	-	-				
4	Fund-based - LT-Cash Credit	LT	56.00	CARE A+; Stable	-	1)CARE A; Stable (15-Dec-21) 2)CARE A-; Stable	1)CARE A-; Stable (25-Aug-20)	-

						(18-May-21)		
5	Non-fund-based - LT/ ST-BG/LC	LT/ST*	98.00	CARE A+; Stable / CARE A1+	-	1)CARE A; Stable / CARE A1 (15-Dec-21) 2)CARE A-; Stable / CARE A2+ (18-May-21)	1)CARE A-; Stable / CARE A2+ (25-Aug-20)	-
6	Term Loan-Long Term	LT	120.00	CARE A+; Stable	-	1)CARE A; Stable (15-Dec-21) 2)CARE A-; Stable (18-May-21)	-	-

*Long term/Short term; **Long-term

Annexure-3: Detailed explanation of the covenants of the rated instruments/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 - LT/ ST-BG/LC	Simple
3	Term Loan-Long Term	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 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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