Tamilnadu Petroproducts Limited

December 15, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	176.00	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Long Term / Short Term Bank Facilities	63.00	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable/ A One)	Revised from CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable / A Two Plus)
Total Bank Facilities	**239.00 (Rs. Two Hundred Thirty-Nine Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Tamilnadu Petroproducts Limited (TPL) takes into account the improvement in financial and operational performance of the company over the years and particularly in H1FY22 wherein the revenues and profits witnessed a significant increase aided by increased demand in linear alkyl benzene (LAB). The rating takes comfort from the long track record of operations of the company and its established market position in the domestic LAB market with firm off-take tie-ups with major Fast-moving consumer goods (FMCG) companies. The ratings also factor in the benefits derived from the integrated nature of its operations, the company's comfortable capital structure and liquidity profile. The ratings also take into account 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:

- Increase in the scale of operations beyond Rs.1,800 crore with PBILDT margins above 15% on a consistent basis.
- 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 in stabilisation and scaling up of operations post completion of the capacity expansion program.
- 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 Southern Petrochemical Industries Ltd (SPIC) 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, LAB, Heavy Chemical Division (HCD) and Propylene Oxide (PO), with LAB contributing to 79% of revenue in FY21 (refers to the period April 1 to March 31), while HCD and PO contribute to 12% and 9%, respectively.

Established market position with long-standing customer base: TPL is one of the leading manufacturers of LAB in the domestic market. TPL enters into firm off-take agreements with major FMCG players under annual contracts where prices are fixed based on international prices of key raw materials. Around 80% of the revenues of LAB division are from firm off-take agreements. Apart from LAB, TPL also has 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. Caustic soda is sold to major players like NALCO, Baliga, etc., while chlorine is partly consumed internally and partly sold to MPL. Propylene Oxide (PO), manufactured by TPL since January 2019, is entirely sold to its group company, Manali Petrochemicals Ltd (MPL; rated 'CARE A+; Stable/ CARE A1+').

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. TPL has brought down the imports of N-Paraffin from 20% of total n-paraffin consumed in FY18 to 3% in H1FY22. Disposal of chlorine is a major challenge faced by caustic soda units. However, with the Propylene Oxide (PO) plant using the Hydrochlorination process for manufacturing, increased captive consumption of chlorine and consequently increased capacity utilisation of caustic soda plant. Capacity utilisation of the caustic soda plant has witnessed a steady increase over the last 3 years from 42% in FY17 to 76% in FY21.

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

Expansion project: In LAB division, the company is to increase the capacity from 120,000 MTPA to 145,000 MTPA at an estimated cost of around Rs.235-240 crore. In HCD division, TPL currently uses the mono-polar membrane technology for the manufacturing of caustic soda. The company is now proposing installing a new 250 TPD Cell House with an electrolyzer with Bi-polar membrane and build a plant in such a manner to expand/debottleneck the existing plant and replace this technology with bi-polar membrane technology. This is expected to be done at an estimated cost of Rs.165 crore. The chlorine from the additional capacity is expected to be largely sold to MPL and consumed internally for PO manufacturing. The total project cost outlay for these expansions is about Rs.400 crore which is to be funded in the debt-equity ratio of 30:70 and a loan of Rs.120 crore is already sanctioned. Financial closure has been achieved, however, the projects are in the nascent stage and the company is in the process of getting approval and environment clearances for the same. The HCD division expansion is expected to be completed by end of FY23, while LAB expansion project is expected to be completed by end of H1FY24.
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 Rs.266.18 crore as on September 30, 2021, the impact on capital structure is not expected to be significantly adverse. However, timely completion of the project, stabilisation of the operation on the expanded capacity and offtake of the same would be key to the 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 December 31, 2020. The overall gearing remained comfortable at 0.09x as on March 31, 2021, as against 0.08x as on March 31, 2020.

Key Rating Weaknesses
High dependence on a single product: The company's main product is LAB, a crude derivative. While the company has presence in the HCD division and also has a PO division, the dependence on LAB remains high. LAB and Caustic Soda 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 sale in this division.

Limited pricing flexibility due to commoditised nature of products: The company operates in a highly commoditised industry with limited product differentiation. Competition from both domestic and global suppliers, who are large integrated players in the petrochemical segment restricts the pricing power of standalone players such as TPL. 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. 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.

Exposure to subsidiaries: The total investment in subsidiary companies by TPL stood at Rs.96.45 crore as on March 31, 2020. This translated to 17% of the net worth of TPL. 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 stands at 0.11x as on March 31, 2020.

Claims against the company and other contingencies: The company had received a claim from TNEB for Rs.61.3 crore for non-compliance of the covenants under the group captive scheme, i.e., the users are required to hold collectively not less than 26% of the share capital and consume not less than 51% of the power generated on an annual basis and non-compliance of the covenants will attract cross subsidy charges. Such non-compliance was for a limited period in 2015-16 due to disrupted operations during December 2015 floods. However, a writ petition has been filed by the private power producers before the High Court of Madras, challenging levy of cross subsidy and obtained stay on the demand.

Highly competitive industry and threat from imports: With improved consumption pattern of detergents and availability of no major substitute for the product, the demand for LAB has been going upwards in the past few months. At the same time, continuation of imports into the country may be a constraint for the domestic LAB manufacturers and cut into their profitability. TPL is also embarking on an expansion program on the LAB division and it is expected that with increased awareness on hygiene post the COVID pandemic, the demand outlook would remain positive. Furthermore, while imports continue to remain a threat as referred to earlier, most buyers prefer dual sourcing models, and TPL is expected to benefit from the same 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. In order to help domestic manufacturers, Alkalies Manufacturers Association of India (AMAI) has sought a level playing field from the government by way of increase in customs duties on caustic soda and soda ash imports, a GST structure for electricity taxes and the imposition of export duty on salt. Furthermore, extension of antidumping duty on caustic soda from certain countries is also likely to help in limiting the imports thereby benefitting the domestic players. TPL is also embarking on a capacity expansion-cum-change of technology for the HCD division. Furthermore, the budgeted increase in production of propylene oxide and sale of chlorine to the group company MPL, which is also augmenting capacities allows higher capacity utilisation of the caustic soda plant.

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 March 2021 is modest at around 57%. The company has cash and bank balances of Rs.266 crore as at September 30, 2021, with no 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 SPIC 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, 2021, the company has 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 (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (Prov.)
Total operating income	1,233.10	1,154.70	927.8
PBILDT	101.36	179.57	149.36
PAT	55.08	121.68	99.84
Overall gearing (times)	0.09	0.09	0.11
Interest coverage (times)	10.79	24.89	65.51

A: Audited; Prov.: Provisional
Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applivable

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
Fund-based - LT-Cash Credit		-	-	-	56.00	CARE A; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	63.00	CARE A; Stable / CARE A1
Term Loan-Long Term		-	-	Jan 2031	120.00	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 - LT/ ST-BG/LC	LT/ST*	-	-	-	-	1)CARE BBB+; Stable / CARE A3+ (11-Sep-19) 2)Withdrawn (11-Sep-19)	1)CARE BBB+; Stable / CARE A3+ (24-Aug-18)
2	Fund-based - LT-Cash Credit	LT**	-	-	-	-	1)CARE BBB+; Stable (11-Sep-19) 2)Withdrawn (11-Sep-19)	1)CARE BBB+; Stable (24-Aug-18)
3	Fund-based - LT-Cash Credit	LT**	-	-				
4	Fund-based - LT-Cash Credit	LT**	56.00	CARE A; Stable	1)CARE A-; Stable (18-May-21)	1)CARE A-; Stable (25-Aug-20)	-	-
5	Non-fund-based - LT/ ST-BG/LC	LT/ST*	63.00	CARE A; Stable / CARE A1	1)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 (18-May-21)	-	-	-

* Long-Term / Short-term; **Long 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 - 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 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@careedge.in for any clarifications.

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