Punjab Alkalies and Chemicals Limited

March 17, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	97.51 (Enhanced from 57.16)	CARE BB+ (CWD) (Double B Plus) (Under Credit watch with Developing Implications)	Continues to be on Credit watch with Developing Implications
Long Term / Short Term Bank Facilities	20.00 (Enhanced from 10.00)	CARE BB+ / CARE A4+ (CWD) (Double B Plus / A Four Plus) (Under Credit watch with Developing Implications)	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

CARE has assigned CARE BB+/CARE A4+ (Under credit watch with developing implications) for the enhanced bank facilities of Punjab Alkalies and Chemicals Limited (PACL). The ratings continue to take into account 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 continue to remain constrained by 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 takes cognizance of the loss reported at PBILDT level during H1FY22 (refers to the period April 01 to September 30) on account of sweat equity issued however, the margins have improved significantly during 9MFY22 (refers to the period April 01 to December 31) and are expected to improve further during full year FY22 with improved realizations and management's efforts to reduce the cost. The ratings, however, 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 take comfort from comfortable capital structure, locational advantage of the plant and expected improvement in scale of operations and profitability going forward.

The ratings continues on '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. 450 crore and PBILDT above 15% on a sustained basis.
- Commencement of operations from enhanced capacity and power plant in a timely manner and achieve envisaged profitability margins post commissioning of the new projects despite cyclicality in caustic soda industry.
- Completion of acquisition 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 the on-going capex projects
- Heavy dumping of caustic soda products from foreign countries significantly impacting its ECU realization leading to significant impact on profitability margins and reduction in gross cash accruals.
- 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 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

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

during FY21 vis-à-vis the highs of around Rs.38,633/MT in FY19. The end-user industry such as paper and pulp, textile were worst affected due to COVID and the prices were affected subsequently. However, during 9MFY22 (refers to the period April 01 to December 31), the realisations are seeing an uptick and is expected to remain firm and further improve from this level in remaining part of the financial year.

Large size ongoing capacity expansion and power projects with large funding commitment from internal accruals
The company is undergoing setting up of a captive power plant of 35 MW capacity on EPC basis from Durva Infratech LLP. The project is expected to reduce the power cost substantially which accounts for ~55% of the total cost. The total cost of the project is estimated at close to Rs.110 crore for which company has already achieved the financial closure. The project is expected to be commissioned by June 30, 2022. As on February 24, 2022, the company has incurred Rs. 80.28 cr on the power project which is funded by Rs. 45 cr equity from Durva Infratech, term debt of Rs. 30.93 cr and remaining from cash accruals. 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. The total project cost is expected to be Rs. 60 crore which will be funded by debt of Rs. 40 cr and remaining from internal accruals. The project is expected to be commissioned by March 31, 2022. As on Feb 24, 2022, the company has incurred Rs. 47.00 crore on the project which is being funded by Rs. 15 crore of term loan and remaining through internal accruals. 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. Power cost accounted for around 50-55% of the TOI from Chlor-alkali segment of the company in last 3 years. However, the power consumption has reduced in FY21 due to up-gradation to latest technology Generation-6 Electrolysers. Further the power tariff has reduced from Rs.6.52 per unit in March 31, 2020 to Rs.6.09 per unit in March 31, 2021 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

Loss reported at PBILDT level during H1FY22 largely on account of sweat equity issued, however, significant improvement in PBILDT margins during 9MFY22
During H1FY22, the company reported loss at the PBILDT level owing to issue of sweat equity shares to managing director worth Rs. 57.41 crore (including tax expense of Rs. 17.12 crore) in H1FY22 which is a one time transaction. The transaction was a non cash consideration in recognition of services rendered by Mr. Naveen Chopra and the tax liability on such non-monetary perquisite was paid by the Company. Adjusting for the same, the PBILDT levels remain positive. However, during 9MFY22, the EBIDTA margins improved significantly from 12.44% in 9MFY21 to 32.93% in 9MFY22 on account of improved realisations along with reduction in power & fuel cost and employee costs. The profitability is expected to improve going forward with the improvement in realizations coupled with management's efforts to reduce the cost of production.

Key Rating Strengths
Experienced promoters and management
The company was promoted by Punjab State Industrial Development Corporation Limited (PSIDCL) in 1975, which disinvested its 33% stake in Q3FY21. 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 PSIDCL to Mr. Sukhbir Singh Dahiya, Mr. Jagbir Singh Ahlawat and Mr. Naveen Chopra who have several decades of experience in chemical industry.

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 five 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.

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. During FY21, the demand from textile and paper industry was subdued, however, this was offset by the demand from Aluminium sector. With Make in India initiatives, the imports of caustic soda for Alumina production is being replaced with domestic supply which will help PACL in future. 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.

Comfortable capital structure and expected improvement in scale of operations and profitability going forward
Despite moderation in its profitability during FY21, the capital structure of the company remained comfortable with an overall gearing of 0.72 times as on March 31, 2021. Although its capital structure is expected to moderate over medium term owing to expected availment of large amount of term debt to complete its on-going capex, they are 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.

Liquidity: Adequate
The liquidity position of the company is adequate as company has expected gross cash accruals of around Rs. 68.19 crore as against very low repayment obligations of Rs. 0.20 crore in FY22. The average working capital utilisation for the past 12 months ended November 2021 stood low at 31.71%. The company had free cash and cash balances of Rs. 6.20 crore as on Dec 31, 2021.

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 Sep 30, 2021. 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 March 31, 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 400 TPD of Caustic Soda.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	292.92	242.92^	303.28
PBILDT	15.32	2.45^	42.48
PAT	8.80	8.24	14.57
Overall gearing (times)	1.13	0.72	NA
Interest coverage (times)	2.97	0.46	5.92

A: Audited; UA: Unaudited; NM: Not meaningful; NA: Not Available
^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 BB+ (CWD)
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	20.00	CARE BB+ / CARE A4+ (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 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	Fund-based - LT-Term Loan	LT	97.51	CARE BB+ (CWD)	1)CARE BB+ (CWD) (17-Jan-22)	-	-	-
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	20.00	CARE BB+ / CARE A4+ (CWD)	1)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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