TGV SRAAC Limited

January 18, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long Term Bank Facilities	213.12 (Enhanced from 190.16)	CARE A-; Negative (Single A Minus; Outlook: Negative)	Reaffirmed
Long Term / Short Term Bank Facilities	346.69 (Enhanced from 319.16)	CARE A-; Negative / CARE A2+ (Single A Minus ; Outlook: Negative / A Two Plus)	Reaffirmed
Short Term Bank Facilities	26.95	CARE A2+ (A Two Plus)	Reaffirmed
Total Facilities	**586.76 (Rs. Five Hundred Eighty-Six Crore and Seventy-Six Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the enhanced bank facilities of TGV SRAAC Limited (SRAAC) continue to derive strength from experienced promoters, long proven track record in manufacturing of chlor- alkali products, integrated operating plant, established relationship with key clients and suppliers, diversified end user industries coupled with synergies from group companies, comfortable capital structure and presence of captive power plants that partly cater to company's power requirement. However, the rating strengths are partially offset by, volatility in prices of raw material and sales realization, high power intensive nature of operations resulting in high power costs, high utilization of working capital bank limits, and cyclical nature of the industry. The ratings also take cognizance of subdued financial performance during FY20 (refers to the period from April 1 to March 31) as well as H1FY21, impact of COVID on company's performance and the ongoing debt-funded capex.

Rating Sensitivities:

Positive Factors:

- ✓ Notable improvement in scale of operations while sustaining the current level of PBILDT margins and capital structure.

Negative Factors:

- × Sustained pressure on its profitability marked by PBILDT margin falling below 15%, in future.
- × Significantly more than envisaged debt funded capex/investments leading to its overall gearing deteriorating to more than 0.80x on sustained basis.
- × Significant decline in the operational and financial performance of the company in the coming quarters.

Outlook: Negative

The 'Negative' outlook on the rating reflects continuous decline in the realization of company's key product viz caustic soda, which if sustains may adversely impact the profitability of the company. Further, the ongoing debt funded capex is expected to weaken the capital structure of the company. SRAAC's ability to generate envisioned benefits from the said CAPEX undertaken for ramping up the new capacities and modernization of plant, is yet to be seen. The outlook may be revised to 'Stable' if SRAAC is able to absorb the adverse impact of price fluctuation caustic soda as well as exhibit strong accruals from the CAPEX, as envisaged.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

SRAAC promoted by Mr. T G Venkatesh Chairman, who is a commerce graduate and hails from 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.

Integrated operations and satisfactory operational performance

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 gain maximum advantage of its large production capacity. This also protects the company from the effects of cyclicality in the demand for its certain products, given a diversified product basket. The operational performance of the company has been satisfactory during FY20 and the company operated at around 73% capacity during the year.

Established relationship with key clients and suppliers and company catering to diversified end user industries

The company has long and established manufacturing track record of more than three decades in manufacturing of chemicals since its inception 1981. Over the years, SRAAC 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 the similar lines, SRAAC procures certain raw material from its group entities and also off-take of some of the finished products is from group concerns.

Comfortable capital structure and debt coverage indicators

The capital structure of the company remained comfortable as on March 31, 2020. The debt to equity and overall gearing of the company remained below unity at 0.19x and 0.78x as on March 31, 2020 with scheduled repayment of term debt, additions to equity and accretion of profits to net worth.

The interest coverage indicator of the company has remained satisfactory at 3.68x in FY19 (4.00x in FY19). The debt coverage indicator; total debt to GCA moderated from 2.53x in FY19 to 4.01x in FY20 due to increased debt levels mainly on account of the capex LC's availed by the company to fund its capex requirements, although the coverage indicators continue to remain satisfactory.

Industry Outlook

The outlook for the domestic chlor-alkali industry is likely to remain stable in the near-term, mainly on account of expectation of steady demand from its end-use industries like aluminum, pharmaceuticals, agrochemicals and organic chemicals. Profitability of the industry had increased significantly during FY18 and FY19 largely driven by better sales realization of caustic soda products due to supply cuts from China and Europe on account of stricter environmental norms which had led to closure of some plants in the said countries. However, in FY20 the revenues and margins for caustic soda players moderated due to the rise of cheaper imports which led to low capacity utilisation for domestic manufacturers and lower caustic soda realizations on the back of inherent cyclical nature of industry. Significant imports are from countries having surplus capacities like China, Turkey, US, Russia, 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. Further, extension of anti-dumping duty on caustic soda from certain countries is also likely to help in limiting the imports thereby benefitting the domestic players.

Key Rating Weaknesses

Moderation in the financial performance during FY20 & H1FY21

The scale of operations of the company has shown a healthy growth during FY17- FY19 with a CAGR of 14.91% backed by increase in demand and production as well as realizations. However, income witnessed a y-o-y decline of 13.36% during FY20 led by decreased revenue from the chemical division. This apart, major disruptions with the outbreak of COVID -19 resulted in volatility and decline in the market. Increase

in raw material costs coupled with decline in the realizations has resulted in decline in the PBILDT margins of the company by 366 bps in FY20.
During H1FY21, the company was able to register TOI of Rs.491.98 crore as against Rs.551.03 crore during H1FY20 with PBIDT of Rs. 76.54 crore and PAT of Rs. 16.73 crore primarily on account of COVID induced lockdown which adversely impacted the performance during Q1FY21. Although, the operations have resumed to normal levels, the impact of COVID is still continuing resulting in subdued demand and overall economic slowdown.

Ongoing debt funded capex
The company has been witnessing significant increase in demand for its products under chloromethane division and to cater to the same, it is planning to enhance its capacities for chloromethane plant and undertake modernization works for the caustic soda plant. Company proposes to undertake this capex during FY21 and FY22. Project cost is estimated to be around Rs.157.25 crore proposed to be 64% debt funded. Financial closure for the capex is yet to be achieved. The manufacturing facility is expected to commence its operations from Q3FY22 onwards.

Exposure of raw material and finished goods price volatility and forex currency fluctuations; however, export volumes provide natural hedge to a certain extent
The primarily raw materials are potassium chloride, palm fatty acid and related oils, castor oil etc, which form around 20% - 25% of the cost of production. Majority of them are imported. The key raw materials are price sensitive and highly volatile. Profitability of caustic manufacturing companies is linked to the prevailing Electro – chemical unit (ECU) price. Cyclical downturns, or adverse variability in the demand-supply balance, may also drag down realisations for caustic soda players. Further, lag between change in the raw material price and reset of finished good price impacts the profitability of the company.

Power intensive industry resulting in high power costs albeit moderate power supply from captive power plants
The caustic soda industry is power intensive industry. Power cost constituted around 40%-47% of cost of sales (FY18-20) and 35-40% of gross sales (FY18-20). Electricity is directly used in manufacture for electrolysis of brine (salt solution - the raw material). In order to manage its power costs, the company started sourcing part power from other sources at lower rates. The average cost of power to the Company during FY20 was at Rs.5.63 per KWH as against Rs.6.21 KWH during the previous year.

Liquidity indicator – Adequate
The liquidity position of the company is adequate marked by sufficient accruals as against repayment obligations. The operating cycle of the company is negative at -32 days in FY20 as against -17 days in FY19 due to extended 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 high at 86% for the last twelve months ended October, 2020. However, the liquidity of the company is supported by the positive cash flows from operations amounting to Rs 256 crore and unencumbered cash and bank balance of Rs. 24.73 crore as on March 31, 2020. Also, the company did not avail moratorium for any of its bank limits.

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
Rating methodology – Manufacturing Companies
Financial ratios - Non Financial Sector
Liquidity Analysis of Non- financial Sector Entities

About the Company
Incorporated in July 24, 1981, TGV SRAAC Ltd (erstwhile Sree Rayalaseema Alkalies and Allied Chemicals Ltd; 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 etc. The company also manufactures castor oil

derivatives, fatty acids & consumer products-majorly toilet soaps, chloromethane products and is also into power generation. The plant is certified by ISO 9001, ISO 14001 and OHSAS 18001 system certification.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1209.73	1048.09
PBILDT	233.25	163.66
PAT	78.27	46.47
Overall gearing (times)	0.69	0.78
Interest coverage (times)	4.00	3.68

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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*

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	February 2024	194.04	CARE A-; Negative
Fund-based - LT-Working Capital Demand loan	-	-	March 2021	5.52	CARE A-; Negative
Fund-based - LT-Cash Credit	-	-	-	13.56	CARE A-; Negative
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	12.65	CARE A2+
Fund-based - ST-FBN / FBP	-	-	-	0.80	CARE A2+
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	13.50	CARE A2+
Non-fund-based - LT/ ST-Letter of credit	-	-	-	332.64	CARE A-; Negative / CARE A2+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	14.05	CARE A-; Negative / CARE A2+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	194.04	CARE A-; Negative	1)CARE A-; Negative (23-Dec-20)	1)CARE A-; Negative (09-Oct-19)	1)CARE A-; Stable (13-Nov-18)	-
2.	Fund-based - LT-Working Capital Demand loan	LT	5.52	CARE A-; Negative	1)CARE A-; Negative (23-Dec-20)	1)CARE A-; Negative (09-Oct-19)	1)CARE A-; Stable (13-Nov-18)	-
3.	Fund-based - LT-Cash Credit	LT	13.56	CARE A-; Negative	1)CARE A-; Negative (23-Dec-20)	1)CARE A-; Negative (09-Oct-19)	1)CARE A-; Stable (13-Nov-18)	-
4.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	12.65	CARE A2+	1)CARE A2+ (23-Dec-20)	1)CARE A2+ (09-Oct-19)	1)CARE A2+ (13-Nov-18)	-
5.	Fund-based - ST-FBN / FBP	ST	0.80	CARE A2+	1)CARE A2+ (23-Dec-20)	1)CARE A2+ (09-Oct-19)	1)CARE A2+ (13-Nov-18)	-
6.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	13.50	CARE A2+	1)CARE A2+ (23-Dec-20)	1)CARE A2+ (09-Oct-19)	1)CARE A2+ (13-Nov-18)	-
7.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	332.64	CARE A-; Negative / CARE A2+	1)CARE A-; Negative / CARE A2+ (23-Dec-20)	1)CARE A-; Negative / CARE A2+ (09-Oct-19)	1)CARE A-; Stable / CARE A2+ (13-Nov-18)	-
8.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	14.05	CARE A-; Negative / CARE A2+	1)CARE A-; Negative / CARE A2+ (23-Dec-20)	1)CARE A-; Negative / CARE A2+ (09-Oct-19)	1)CARE A-; Stable / CARE A2+ (13-Nov-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the 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-Bills discounting/ Bills purchasing	Simple
5.	Fund-based - ST-FBN / FBP	Simple
6.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
7.	Non-fund-based - LT/ ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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