Tamilnadu Petroproducts Limited

May 18, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	120.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Assigned
Long-term Bank Facilities	56.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long-term / Short-term Bank Facilities	63.00	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Reaffirmed
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 ratings assigned to the bank facilities of Tamilnadu Petroproducts Limited (TPL) take into account the long track record of operations of the company and its established market position in the domestic Linear Alkyl Benzene (LAB) market with firm off-take tie-ups with major 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, commoditized nature of the business with limited pricing flexibilities, competitive nature of the industry and threat from imports.

Rating Sensitivities

Positive Factors:

- Increase in the scale of operations beyond Rs.1,500 crores with a reduction in the product concentration
- Sustained improvement in profitability margins marked by PBILDT margins improving beyond 12%
- Reduction in group exposure

Negative Factors:

- Any delay in execution the on-going expansion program or stabilization 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).

Established market position in the domestic LAB market: TPL is one of the leading manufacturers (about 22% of domestic capacity) of LAB in the domestic market, with majority of their revenue backed by firm off-take agreements in place with major FMCG players like HUL, Jyothy Laboratories etc. 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 and sells caustic soda to major players like NALCO, Baliga etc. Propylene Oxide (PO) manufactured by TPL since January 2019, is entirely sold to its group company, Manali Petrochemicals Ltd.

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. This provides cost competitiveness against imported NP. LAB plant is operating at a consistently high utilisation of 80%-85% in the last three years. In FY19, the company has started to manufacture Propylene Oxide (PO) through the Hydrochlorination process, thereby providing firm off-take for chlorine (a major

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

by-product of Caustic Soda) and consequently increasing capacity utilisation of Caustic soda plant from 42% in FY17 to 76% in FY20.

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, 2020, as against 0.10x as on March 31, 2019.

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 Rs.235-240 crore. In HCD division, TPL currently uses the mono-polar membrane technology for the manufacturing of caustic soda. The company is proposing to install 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 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 has proposed to take a loan of Rs.120 crore. The projects are in the nascent stage and the company is in the process of getting approval and environment clearances for the same. Financial closure is yet to be done. The LAB expansion project is expected to be completed within a time-frame of 24 months while the HCD division expansion is expected to take about 18 months.
While the project size is significantly large, the debt component in the project is limited and with a comfortable capital structure presently, 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. The company has also planned setting up of Propylene Recovery Unit with an initial capacity of about 21KTPA would be implemented at an estimated cost of about Rs. 30 crore and cater to the feedstock requirements of the PO Plant. This is expected to be entirely funded out of internal accruals.

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 has recently commenced operations of its PO division, the dependence on LAB remains high at 82% of the total income. The company's revenue has remained stable over the years with a revenue of Rs. 1,233.10 Crores during FY20.

Limited pricing flexibility due to commoditized nature of products: The Company operates in a highly commoditized industry with limited product differentiation. LAB realization in the domestic market is impacted by competition from both domestic and global suppliers restricting pricing power of standalone players. The HCD division is also a cyclical business, with prices exhibiting high level of volatility.
The company's PBILDT margins have dropped from 9.48% in FY18 to 8.22% in FY20. However, in 9MFY21, the PBILDT margins witnessed sharp improvement with the company reporting a PBILDT of Rs.100 crore on an income of Rs.802 crore translating to a margin of 12.56%. The company reported a PAT of Rs.58.92 crore for 9MFY21.

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 22% 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 crores for non-compliance of the covenants under the group captive scheme. Such non-compliance was for a limited period in 2015-16 due to disrupted operations during December 2015 floods. 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
During Q1FY21 (June 12, 2020), the period of lease relating to the leasehold land on which one of the manufacturing units of the company (ECH-PO) is operating has expired. Request for renewal has been filed by the Company with Government of Tamil Nadu, which is under process.

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 continues to trend upwards. However, increase in imports affect 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 remains positive. Even for Caustic Soda, significant imports are coming from countries having surplus capacities like China, Turkey, US, Russia, etc. 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.

It is expected that once there is complete restoration of demand from end-use industries upon stabilization of economy post Covid-19 pandemic, there is an expectation of better realization for caustic soda as it is a basic chemical in most of its user industries. Further, the budgeted increase in production of Propylene Oxide and the backward integration plan of setting up a PRU, and sale of chlorine to 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, as observed in the reduction in average creditors' period from around 38 days in FY17 to around 19 days in FY20. The average working capital utilization for the last 12 months is modest at around 63%. The company had about Rs. 124.24 crores as cash and bank balances on its standalone books as on September 30, 2020.

Analytical approach: Standalone

Applicable Criteria

Rating Methodology-Manufacturing Companies
Rating Methodology - Short Term Instruments
CARE's Policy on Default Recognition
Financial ratios - Non-Financial Sector
CARE's Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
Liquidity Analysis of Non-financial sector entities

About the Company

Tamilnadu Petrochemicals Limited (TPL), headquartered in Chennai, is a part of 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 LAB, HCD and PO. The LAB division is engaged in the manufacture of Linear Alkyl Benzene (LAB) which is a key input for 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 March 2021, the company has installed capacity 1,20,000 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)	FY19 (A)	FY20 (A)
Total operating income	1,252.21	1,233.10
PBILDT	99.03	101.36
PAT	54.28	55.08
Overall gearing (times)	0.10	0.09
Interest coverage (times)	14.46	10.79

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

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-Cash Credit	-	-	-	56.00	CARE A-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	63.00	CARE A-; Stable / CARE A2+
Term Loan-Long Term	-	-	-	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 (25-Aug-20)	-	-
5.	Non-fund-based - LT/ ST-BG/LC	LT/ST	63.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (25-Aug-20)	-	-
6.	Term Loan-Long Term	LT	120.00	CARE A-; Stable	-	-	-	-

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 the 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

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@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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