Primo Chemicals Limited (Revised)
July 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	175.51 (Reduced from 185.51)	CARE BBB- (RWD)	Continues to be on Rating Watch with Developing Implications
Long Term / Short Term Bank Facilities	75.00 (Enhanced from 65.00)	CARE BBB- / CARE A3 (RWD)	Continues to be on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Primo Chemicals Limited (PCL) continues to derive strength from experienced promoters with long-track record of operations, favourable location of the plant, healthy capacity utilisation and moderate diversification of clientele across various end user industries. The ratings also favourably factor in growth in scale of operations along with higher profitability during FY23 (refers to the period from April 1 to March 31) on the back of healthy realisations and buoyant demand. The ratings take cognisance of the expected moderation in profitability and scale of operations in current year on account of moderation in realisations. Further, the ratings continue to remain constrained by the project risk on account of addition of aluminium chloride in its product profile during FY24 and inherent volatility in Electro Chemical Unit (ECU) realizations of caustic soda leading to volatile 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 continue to remain under 'rating 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 PCL 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: Factors likely to lead to rating actions

Positive factors

- Improvement in total debt/PBILDT below 1.25x
- Timely commissioning of the new projects within envisaged time and cost and achieve envisaged profitability margins despite cyclicality in caustic soda industry
- Completion of 100% acquisition of Flow Tech Chemicals and proposed amalgamation of group companies in a timely manner

Negative factors

- Any higher than envisaged large debt-funded expansion or higher than envisaged exposure towards group companies resulting in total debt/ PBILDT exceeding 2.00x
- Any time or cost overrun in execution of ongoing capex projects.
- Heavy dumping of caustic soda products from foreign countries significantly impacting its ECU realization leading to significant impact on profitability margins, gross cash accruals and debt coverage indicators
- 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

Analytical approach: Standalone

Detailed description of the key rating drivers:

Key strengths

Experienced promoters and management

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

The company was promoted by Punjab State Industrial Development Corporation (PSIDC) in 1975, which disinvested its 33% stake in Q3FY21- (refers to the period October 01 to December 31). In Oct 2020, the promoters of Flowtech Group have acquired the stake in PCL 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 PSIDC 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. During FY23, PCL has undertaken capacity expansion of caustic soda from 300 TPD to 500 TPD and setting up of downstream product units. The utilisation remained high at 91.20% on a base of increased capacity.
The capacities of byproducts Chlorine, Hydrogen Chloride, Sodium Hypo Chlorate and Hydrogen are not fixed and varies 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 by-product.

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 PCL are located at Naya Nangal in District Ropar, Punjab. PCL 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 PCL 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 PCL finds application across various industries like Paper, textiles, Detergent, FMCG, Paint, Chemicals and Pharmaceutical industries. 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.

Improvement in operational performance during FY23
During FY23, the total operating income (TOI) of the company has witnessed a healthy growth rate of 56% on y-o-y basis mainly backed by increasing realizations and higher demand in the sector. TOI increased from Rs. 466.70 crore during FY22 to Rs. 725.94 crore during FY23. The growth is also attributable to enhanced capacity of 500TPD since October 2022 as against 300 TPD earlier as well as addition of Stable bleaching powder in product profile. The ECU realisation increased to Rs.39,661 per tonne for FY22 to Rs.50,045 per tonne for FY23.
The profitability of PCL has also increased significantly as marked by PBILDT margin of 29.05% in FY23 as against 21% of PBILDT margin in on the back of improved realisations. The cost of raw material decreased from 14% of net sales in FY22 to 12% of net sales in FY23. The landed cost of raw material PMT of Caustic Soda Lye has increased from Rs. 5305 during FY22 to Rs.6350 during FY23 mainly because of increase in landed cost of salt, barium carbonate, soda ash and sulphuric acid. Going forward, the PBILDT margin is expected to moderate and remain in the range of 20-22% over the medium term.

Key weaknesses

Inherent volatility in ECU realization of caustic soda and its by-products leading to volatile margins over the past 5 years
With presence in a cyclical industry where the product is also commoditized, the company faces high volatility in the realisations of caustic soda. The net ECU realization increased from Rs.39,661 in FY22 to Rs.50,045 in FY23 on the back of buoyant demand in the sector. This growth is primarily driven by strong domestic demand and increased demand for exports, which has been bolstered by major global economies adopting the China +1 policy. Going forward, the net realisation are expected to stabilise at FY22 levels. However, any substantial drop in ECU realizations leading to reduction in gross cash accruals would remain a key rating sensitivity.

Risk related project implementation and stabilisation
During FY23, the company has completed two projects related to capacity expansion and addition of Stable Bleaching in product profile. The capacity expansion project was completed in October 2022 for a total project cost of Rs. 63.35 crore (Rs. 40 crore debt and Rs. 23.35 crore internal accruals). Post which the capacity has been enhanced from 300 TPD to 500 TPD. Further, the

production of stable bleaching powder started in January 2023 for a total project cost of Rs. 37 crore (Rs. 27.50 crore debt and rest internal accruals). The power plant and flaker project are in advance stages of completion. The power plant has a total project cost of Rs. 110 crore (Rs. 45 crore equity, Rs. 52.50 crore debt and rest internal accruals). Lastly, the flaker project has a total cost of Rs. 40 crore (Rs. 30 crore debt and rest internal accruals). Further, the company is also incurring capex related to addition of aluminium chloride for a total cost of around Rs. 45 crore to be funded through debt of Rs. 34 crores and rest from internal accruals. The expected COD of the project is September 2023. 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 PCL 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. The power consumption has increased to 2503 units for FY23 as against 2414 units for FY22 because of high current density. However, the power tariff has reduced from Rs.5.93 per unit in FY22 to Rs.5.87 per unit in FY23 leading to overall reduction in power cost. The power tariff has reduced mainly due to reduction in electricity duty as per Industrial Policy and high capacity utilisation during the year.

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 FY23, though expected to moderate in FY24.

Liquidity: Adequate
The adequate liquidity position of PCL is characterised by sufficient cushion in projected cash accruals of around Rs. 88 crores against repayment obligations of Rs. 21.22 crores. The company has capex plans of around Rs. 85 crores during FY24 out of which Rs. ~54 crores will be funded through term loans and rest from internal accruals. Further, the company has free cash and bank balance of Rs. 21.49 crore as on March 31, 2023. The average working capital utilisation for the past 10 months ended January 2023 stood at 6.19%.

Environment, social, and governance (ESG) risks
The caustic soda industry emits numerous toxic compounds into the local environment, such as heavy metals and organochlorine compounds. Many compounds associated with chlorine are toxic and cannot be completely eliminated through any method. The Company is committed to run its operations in an environment-friendly manner and takes all possible measures towards ensuring safety, pollution control and good housekeeping across all its Plants. The company has taken several steps towards energy conservation including; replacement of cooling tower pumps and motors with energy efficient pumps and motors, installation of energy meters at the plant etc. The company has a total workforce of 357 employees out of which 75% of employees were given safety & skill up-gradation training in the last year. PCL's governance profile is marked with 50% independent directors on its board and presence of robust internal control systems.

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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Commodity Chemicals

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 PCL from open market and held a 31.35% stake in the company as on March 31, 2022. The name of the Company was subsequently changed to Punjab Alkalies & Chemicals Limited in 1983 and to current name in December 2022. The company commenced operations at Naya Nangal, Roopnagar, Punjab in January 1984. The company mainly manufactures Caustic Soda 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. The company has increased the total capacity to 500 TPD in phased manner. The units are spread over an area of approximately 89 acres. Both the units are based on membrane cell technology.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	466.70	725.94
PBILDT	98.01	210.91
PAT	56.72	133.98
Overall gearing (times)	0.48	0.54
Interest coverage (times)	11.11	26.13

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

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-Term Loan		-	-	30/09/2028	175.51	CARE BBB- (RWD)
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	75.00	CARE BBB- / CARE A3 (RWD)

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 2023-2024	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

1	Fund-based - LT-Term Loan	LT	175.51	CARE BBB- (RWD)	1)CARE BBB- (RWD) (05-Apr-23)	1)CARE BBB- (RWD) (27-Dec-22) 2)CARE BBB- (CW with Developing Implications) (04-Jul-22) 3)CARE BBB- (CW with Developing Implications) (08-Jun-22)	1)CARE BB+ (CW with Developing Implications) (17-Mar-22) 2)CARE BB+ (CW with Developing Implications) (17-Jan-22)	-
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	75.00	CARE BBB- / CARE A3 (RWD)	1)CARE BBB- / CARE A3 (RWD) (05-Apr-23)	1)CARE BBB- / CARE A3 (RWD) (27-Dec-22) 2)CARE BBB- / CARE A3 (CW with Developing Implications) (04-Jul-22) 3)CARE BBB- / CARE A3 (CW with Developing Implications) (08-Jun-22)	1)CARE BB+ / CARE A4+ (CW with Developing Implications) (17-Mar-22) 2)CARE BB+ / CARE A4+ (CW with Developing Implications) (17-Jan-22)	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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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About us:
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