CareEdge RATINGS

Primo Chemicals Limited (Revised)

November 13, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	175.51	CARE BBB-; Stable	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned
Long-term/Short-term bank facilities	75.00	CARE BBB-; Stable/CARE A3	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The removal of the 'Rating Watch with Developing Implications' of the bank facilities of Primo Chemicals Limited (PCL) takes into account the withdrawal of the scheme of arrangement for amalgamation of Prayag Chemicals Private Limited and V.S. Polymers Private Limited. Furthermore, the proposed acquisition of Flow Tech Chemicals Private Limited is expected to materialise in FY25.

The reaffirmation of the ratings assigned to the bank facilities of PCL continue to derive strength from the experienced promoters with a long track record of operations, the favourable location of the plant, the healthy capacity utilization, and the moderate diversification of the clientele across various end-user industries. The ratings take cognisance of the moderation in profitability and scale of operations during H1FY24 (H1 refers to the period from April 1 till September 30) on account of the moderation in realisations. The same is, however, expected to improve in the second half with the commencement of the aluminum chloride and flaker project as well as the pick-up in the electro-chemical unit (ECU) realisations.

The ratings, however, continue to remain constrained by the inherent volatility in ECU realisations of caustic soda, leading to volatile margins over the past five years. The ratings also continue to remain constrained by the susceptibility of profitability to adverse movements in power cost, the threat of cheaper imports from foreign countries, and the competition with established integrated players in an inherently cyclical caustic soda industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the total debt (TD)/profit before interest, lease rentals, depreciation and taxation (PBILDT) below 1.25x.
- Timely commissioning of the new projects within the envisaged time and cost and achieving the envisaged profitability margins despite the cyclicality in the caustic soda industry.

Negative factors

- Any higher-than-envisaged large debt-funded expansion or higher-than-envisaged exposure towards group companies, resulting in TD/PBILDT exceeding 2.00x.
- Any time or cost overruns in the execution of the ongoing capex projects.
- Heavy dumping of caustic soda products from foreign countries, significantly impacting its ECU realisations, leading to a further impact on the profitability margins, gross cash accruals (GCA), and debt coverage indicators.
- Any tightening of the prevailing pollution control or environmental norms and/or regulatory ban on the production and sales of certain major products, thereby significantly impacting its business and profitability.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects that the operational performance of the company is expected to improve in the second half of the current year on the back of improving ECU realisations as well as operationalisation of the aluminum chloride and flaker project.

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

Detailed description of the key rating drivers

Key strengths

Locational advantage of the plant

The units of PCL are located at Naya Nangal in the Ropar district of Punjab. PCL has locational advantage owing to the easy access to end-users in the vicinity as well as its proximity to the Bhakra Left Bank Power Generating station, which provides it uninterrupted power supply, and River Sutlej as a continuous water supply source, both of which are critical inputs for the smooth functioning of plant. The road as well as rail connectivity to the plant is also good as the company has its own railway siding, and currently, salt is being transported from Gujarat directly to the 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 clients across end-user industries

The products of PCL find application across various industries, such as paper, textiles, detergents, fast-moving consumer goods (FMCG), paints, chemicals, and pharmaceutical industries. The company has healthy relationships with customers and receives repeat orders from them. Payments from customers are normally received within 15-30 days.

Moderate operational performance

The total operating income (TOI) of the company moderated to ₹213.38 crore during H1FY24 as against ₹385.98 crore in H1FY23, mainly due to the fall in sales realisation. ECU realisations have fallen to ₹34,059 in H1FY24 as against ₹50,045 during FY23. The decline was mainly on account of a decline in international prices and the impact on domestic prices. The caustic soda industry has witnessed a fall in sales and profitability owing to the increase in supply from imports. The PBILDT margin has witnessed a sharp decline to 6.10% during H1FY24 against 34.07% during H1FY23 on account of an increase in the cost of salt and power. Going forward, the company expects the profitability to improve in the second half owing to the operationalisation of the aluminium chloride and flaker project as well as the increase in ECU realisations from October 2023 onwards. Any further moderation in profitability, going forward, will remain crucial from the credit perspective.

Experienced promoters and management

The company was promoted by Punjab State Industrial Development Corporation (PSIDC) in 1975, which disinvested its 33% stake in Q3FY21 (Q3 refers to the period from October 01 to December 31). In October 2020, the promoters of the Flow Tech Group acquired a stake in PCL from the open market. Established in 1993, the Flow Tech Group is a pioneer in manufacturing chlorinated paraffin and hydrochloric acid. The manufacturing facilities of the Flow Tech 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 Sukhbir Singh Dahiya, Jagbir Singh Ahlawat, and Naveen Chopra, who have several decades of experience in the chemical industry.

Key weaknesses

Volatility in ECU realisations of caustic soda and its by-products leading to volatile margins over five years

With a presence in a cyclical industry where the product is also commoditised, the company faces high volatility in the realisations of caustic soda. The net ECU realisations have decreased from ₹50,045 in FY23 to ₹34,059 in H1FY24 on the back of an increase in imports. Going forward, the net realisations are expected to stabilise at the FY22 levels. However, any substantial drop in ECU realisations, leading to a reduction in the GCA, will remain a key rating sensitivity.

Susceptibility of profitability to adverse movements in power cost

The profitability of PCL is susceptible to adverse movements in power cost since electrolysis is an energy-intensive process and power cost constitutes a significant part of its cost structure. The power consumption of the company stood at 2.469-kilowatt hour (kWh) during H1FY24, availed at a tariff of ₹6.55 per unit against ₹5.87 per unit in FY23. The company has set up its captive power plant of 35 megawatt (MW), which is expected to be operationalised in Q3FY24, leading to a decrease in the cost of power.

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 due to cheaper imports, the market is highly competitive. The large number of players in the industry leads to high competition among the existing players. Larger organised players are better placed in the market due to their superior quality, brand name, and their ability to negotiate better prices with raw material suppliers. The caustic soda industry is an inherently cyclical industry, wherein, the sales realisation of companies in caustic soda manufacturing has moderated in H1FY24, although expected to improve in H2FY24.

Liquidity: Adequate

The company has pending repayment obligations of around ₹10-11 crore during H2FY24, against which it expects to generate cash accruals of around ₹13 crore. All the projects of the company have been operationalized, except the power plant, which is also expected to commence operations in Q3FY24. The company does not have any further capex planned currently.

PCL has availed a total sanction limit of ₹50 crore of working capital, which is utilised at around 85% in the last six months ending September 30, 2023.

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 the possible measures towards ensuring safety, pollution control, and good housekeeping across all its plants. PCL has taken several steps towards energy conservation, including the replacement of cooling tower pumps and motors with energy-efficient pumps and motors, the installation of energy meters at the plant, among others. The company has a total workforce of 357 employees, of which 75% of the employees were given safety and skill upgradation training in the past year. PCL's governance profile is marked with 50% independent directors on its board and the presence of robust internal control systems.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals and petrochemicals	Commodity chemicals

Incorporated in December 1975, the company is promoted by PSIDCL, which disinvested its 33% stake in Q3FY21. In October 2020, the promoters of the Flow Tech Group acquired a stake in PCL from the open market and held a 31.35% stake in the company as on March 31, 2023. The name of the company was subsequently changed to Punjab Alkalies & Chemicals Limited in 1983, and to its current name in December 2022. PCL 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, such as liquid chlorine, hydrochloric acid, sodium hypochlorite, etc, are the by-products of the manufacturing process. The company has two manufacturing units, viz., Unit-I (200 tonne per day [TPD]) and Unit-II (300 TPD), both of which are located in a premises at Naya Nangal, Ropar district, Punjab. The units are spread over approximately 89 acre. Both the units are based on membrane cell technology.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	466.70	725.94	213.38
PBILDT	98.01	210.91	13.01
PAT	56.72	133.98	-17.29
Overall gearing (times)	0.48	0.54	0.57
Interest coverage (times)	11.11	26.13	1.76

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the 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-; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	75.00	CARE BBB-; Stable / CARE A3

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-; Stable	1)CARE BBB- (RWD) (06-Jul-23) 2)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-; Stable / CARE A3	1)CARE BBB- / CARE A3 (RWD) (06-Jul-23) 2)CARE BBB- /	1)CARE BBB- / CARE A3 (RWD) (27-Dec-22) 2)CARE BBB- / CARE A3 (CW with Developing Implications)	1)CARE BB+ / CARE A4+ (CW with Developing Implications) (17-Mar-22) 2)CARE BB+ / CARE A4+ (CW with	-

					CARE A3 (RWD) (05-Apr-23)	(04-Jul-22) 3)CARE BBB- / CARE A3 (CW with Developing Implications) (08-Jun-22)	Developing Implications) (17-Jan-22)	

*Long term/Short term.

Annexure-3: Detailed explanation of the 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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