Tamilnadu Petroproducts Limited

December 21, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	256.00 (Enhanced from 176.00)	CARE A+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	98.00	CARE A+; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Tamilnadu Petroproducts Limited (TPL) takes into account stable operational performance, strong financial profile marked by minimal debt and comfortable liquidity position of the company. The ratings continue to take comfort from the company's long track record, moderately integrated nature of operations and established market position in the domestic Linear Alkyl Benzene (LAB) market. The ratings also take note of 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, commoditised nature of the business with limited pricing flexibilities, competitive nature of the industry and threat from imports.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- Consistent increase in scale of operations beyond ₹ 3000 crore
- Sustained improvement in the PBILDT margins above 15%
- Reduction in group exposure

Negative Factors

- Delay in execution of the on-going expansion program or stabilization and scaling up of operations post completion of the capacity expansion program.
- Increase in leverage marked by overall gearing exceeding 0.5x and deterioration in liquidity position which is presently marked by healthy cash balances

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's ('CARE Ratings') belief that TPL will continue to maintain its established market position and healthy financial risk profile over the medium term.

Detailed description of the key rating drivers:

Key strengths

Long track record of operations

TPL is a part of the AM International group, which has nearly five decades of operational track record in 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), with LAB contributing to 78% of the revenue in FY23 (refers to the period April 1 to March 31), while HCD and PO contribute to 11% and 9%, respectively.

Established market position backed by strong relationships with reputed clientele:

TPL is one of the leading manufacturers (about 15% of domestic capacity) of LAB in the domestic market and only manufacturer in South India. The company has established strong relationships with reputed players in the FMCG industry for LAB. TPL enters into firm off-take agreements with major FMCG players under annual contracts where prices are fixed on monthly basis based on international prices of key raw materials.

Apart from LAB, TPL has also 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. Caustic soda is sold to major players like NALCO, Balaha, etc., while chlorine is partly consumed internally and partly sold to Manali Petrochemicals Ltd (MPL; rated 'CARE A+; Stable/ CARE A1+'.

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

Stable operational performance backed by moderately integrated operations
One of the major raw materials required for manufacturing LAB is N-Paraffin (NP). TPL has an in-house facility to manufacture NP, which provides cost competitiveness against imported NP. With the backward integration, dependence on higher cost imports of N-Paraffin has gradually reduced. Since production of LAB is also a continuous process, the company uses its own power source for captive consumption to prevent power disruptions. LAB plant has been operating at a consistently high utilisation of 80%-90% in the last three years due to the above factors.
In the HCD business, major by-product in the production of caustic soda is chlorine. Disposal of chlorine is a major challenge faced by Caustic Soda units. However, with the in-house Propylene Oxide (PO) plant using the hydrochlorination process for manufacturing, there is an increase in the captive consumption of chlorine and higher utilisation of the caustic soda unit. The capacity utilisation of caustic soda plant has been consistently high at about 75-85% over the last four years. The integrated nature of operations supports the company in achieving sustained operating efficiency.

Progress in expansion project
In LAB division, the company has proposed to increase capacity from 120,000 MTPA to 145,000 MTPA at an estimated cost of around ₹ 235 crore. In HCD division, TPL proposes to replace the current mono-polar membrane technology for manufacturing of caustic soda with Bipolar membrane technology with a new 250 TPD Cell House with an electrolyzer. This is expected to be done at an estimated cost of Rs.165 crore. The total project cost outlay for these expansions is about ₹ 400 crore, which is to be funded in the debt-equity ratio of 50:50, towards which a loan of ₹ 200 crore is already sanctioned. Both the projects are expected to be completed by Q4FY25.
While the project size is significantly large, the debt component in the project is limited and with a comfortable capital structure presently and available cash balance of about ₹ 245 crore as on September 30, 2023, the impact on capital structure is not expected to be significantly adverse. The company has also not drawn the loans as on November 30, 2023, instead has been utilising the LCs for capex. As of November 30, 2023, the company has committed about Rs. 156 crore for both the project.
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.

Comfortable capital structure
The overall gearing remained comfortable at 0.04x as on September 30, 2023, as against 0.10x as on March 31, 2023. The company had no long-term debt. Debt for the project is yet to be drawn.
The company has investments in subsidiary which stood at ₹ 96.45 crore as on September 30, 2023. This translated to 13% of the net worth of TPL as on March 31, 2023. These companies were incorporated more than a decade ago for some projects in Southeast Asia but currently are non-operational. These subsidiaries do not have any major assets. Adjusting for the exposure in subsidiaries from the net worth, overall gearing continues to remain healthy at 0.11x as on September 30, 2023.

Key Weaknesses

Decline in TOI and margins; after a significant growth seen over FY22:
The company's Total Operating Income (TOI) grew at CAGR of 15% over that past 5 years ended FY23. The sharp improvement in FY22 was on the back of increase in the demand and realisations in LAB due to global supply chain issues coupled with lower input costs. In FY23, however, the crude prices saw a sharp spike causing the input costs for TPL to rise. Input prices have been cooling off in H1FY24, however it still remains higher when compared to pre-covid levels.
Further, the realisations have also been showing a declining trend from H1FY23 onwards. Both these factors put together has led to the declining trend in TOI and margins of the company over FY23 and H1FY24. With input prices cooling off, the margins are expected to go back to the pre-COVID levels. It is to be noted that despite the volatility in realisations, sales volume has remained more or less stable in both HCD and LAB backed by firm offtake agreements with clients.

Concentration in product and end-user industry:
The company's main product LAB is a crude derivative. While the company has presence in the HCD division and recently commenced operations at its PO division, the dependence on LAB remains high at around 80%. LAB finds application in the FMCG segment and the company's customer profile is hence concentrated within the FMCG space. The top five customers in the segment account for more than 80% of the sales in this division. However, there has been consistent business from these reputed players over the years.

Limited pricing flexibility due to commoditised nature of products;

The company operates in a highly commoditized industry with limited product differentiation. LAB realisation in the domestic market is impacted by competition from both domestic and global suppliers. These players are large integrated players in the petrochemical segment and enjoy a considerable amount of pricing flexibility vis-a-vis standalone players such as TPL. TPL's margins are also exposed to the fluctuations in the price of key raw materials such as benzene and kerosene, the prices of which are linked to crude oil prices. While over the long-term this is mitigated to a certain extent with the monthly price revisions based on average prices of key raw materials of previous month, any extreme variations in crude prices are still a concern in the short-term. This is apparent in FY23, wherein the crude prices had increased significantly amidst lowering realisations, leading to impact on margins of the company.

The HCD division is also a cyclical business, with prices exhibiting a high level of volatility. After a COVID induced downturn in FY20 and FY21, global caustic soda prices recovered in FY22, with recovery in end-consumer demand for textile, paper, and aluminium. However, the prices have again seen a downturn in FY24.

Industry being highly competitive and threat from imports

With improved awareness of surfactants and detergent and availability of no major substitute for the product, the consumption of LAB has increased in the past few quarters. At the same time, continuation of imports into the country is a constraint for domestic LAB manufacturers in terms of pricing. The ADD on LAB expired in April 2022; however the impact of the same was not felt immediately due to global supply chain issues. The application of ADD for the next term is under process. Further, the GoI has also made it mandatory for LAB to have BIS certification in a measure to curb cheap substandard imports. Despite these measures, increasing imports from the middle east, especially Saudi and Qatar, continues to be a threat for pricing pressure on domestic players.

The demand is expected to be favorable considering the rising population and increased awareness in hygiene. There is a supply-demand deficit due to an increase in demand for home-care and cleaning chemicals while there is a lower level of investments in expansion of domestic capacities of LAB.

TPL is also embarking on an expansion program on the LAB division as the demand outlook would remain positive. Furthermore, while imports continue to remain a threat as referred to earlier, most buyers prefer dual sourcing models, and TPL is expected to benefit from the same by capitalizing on the existing relationship with its customers and tie up capacities in the near term.

On the caustic soda front, after a dip during FY19-FY21, the prices saw a significant improvement in FY22, especially from H2FY22. There has been a cyclical downturn in demand and realisations again from H2FY23. The inherent cyclicality of the caustic soda industry poses a threat to the margins of the companies. TPL is embarking on a capacity expansion-cum-change of technology for the HCD division which is expected to aid in margins to a certain extent. Furthermore, the budgeted increase in production of Propylene Oxide and sale of chlorine to the 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. Given the nature of industry, and the customer profile (mostly MNCs) collection period also remains healthy. The average working capital utilisation for the last 12 months ending October 2023 is modest at around 57%. The company has cash and bank balances of ₹ 245 crore as at September 30, 2023, with no long-term debt repayment obligations. At a consolidated level, the cash and bank balances were at ₹ 404 crore as on September 30, 2023

Environment, social, and governance (ESG) risks

Environmental	TPL is working towards achieving Zero Liquid Discharge (ZLD) at its plants. The company has commissioned a Reverse Osmosis plant, which treats the effluents generated by its Linear Alkyl Benzene plant, and reuses the water thus produced. TPL is India's first manufacturer of Linear Alkyl Benzene (LAB) to be accredited with BIS certification TPL has implemented an ISO-certified EMS to reduce its environmental footprint and improve the ecological balance.
Social	TPL has constructed sanitation blocks in government schools across Tamil Nadu. Additionally, they have enabled access to clean drinking water for schools and communities in and around the corporate member plant sites. TPL has union for workers, with almost 56% of the workers associated with the union, through which employees can share their grievances
Governance	TPL Is in compliance with Regulation 34(3) read with Schedule V of the Listing Regulations. The company has 12 directors out of which 6 are independent directors. The company also has representative from TIDCO on its board.

Applicable criteria

[Financial Ratios – Non financial Sector]
[Liquidity Analysis of Non-financial sector entities]
[Manufacturing Companies]
[Policy on default recognition]
[Rating Outlook and Credit Watch]
[Short Term Instruments]

About the company and industry

Industry classification

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

Tamilnadu Petrochemicals Limited (TPL), headquartered in Chennai, is a part of the AM International group. 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, Heavy Chemicals Division (HCD), Linear Alkyl Benzene Division (LAB) and Propylene Oxide (PO). The LAB division is engaged in the manufacture of Linear Alkyl Benzene (LAB), which is a key input for the 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 September 30, 2023, the company has an installed capacity 120,000 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 (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (Prov.)
Total operating income	1,805.58	2,150.25	884.99
PBILDT	248.28	127.99	40.65
PAT	170.64	89.31	29.38
Overall gearing (times)	0.08	0.10	0.04
Interest coverage (times)	42.84	18.83	5.81

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-Cash Credit		-	-	-	56.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	98.00	CARE A+; Stable / CARE A1+
Term Loan-Long Term		-	-	Jan 2031	200.00	CARE A+; Stable

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-Cash Credit	LT	-	-				
2	Fund-based - LT-Cash Credit	LT	56.00	CARE A+; Stable	-	1)CARE A+; Stable (09-Dec-22)	1)CARE A; Stable (15-Dec-21) 2)CARE A-; Stable (18-May-21)	1)CARE A-; Stable (25-Aug-20)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	98.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (09-Dec-22)	1)CARE A; Stable / CARE A1 (15-Dec-21) 2)CARE A-; Stable / CARE A2+ (18-May-21)	1)CARE A-; Stable / CARE A2+ (25-Aug-20)
4	Term Loan-Long Term	LT	200.00	CARE A+; Stable	-	1)CARE A+; Stable (09-Dec-22)	1)CARE A; Stable (15-Dec-21) 2)CARE A-; Stable (18-May-21)	-

*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-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple
3	Term Loan-Long Term	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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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