Primo Chemicals Limited

June 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	133.27 (Reduced from 175.51)	CARE BBB-; Negative	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	75.00	CARE BBB-; Negative / CARE A3	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

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 and the moderate diversification of the clientele across various end-user industries. The ratings take cognizance of moderation in total operating income and profitability during FY24 (period refers to from April 1 to March 31) on account of the significant decline in Electro Chemical Unit (ECU) realizations during the year. However, the ECU realization have shown improvement during the first quarter of FY25. This along with operationalization of caustic soda flakes plant from December 2023, the volumes of same shall increase consistently which is expected to yield better profitability margins going forward.

The ratings, however, continue to remain constrained by the inherent volatility in ECU realizations 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 total debt/ profit before interest, lease rentals, depreciation and taxes (PBILDT) below 1.25x
- Stabilization of operations from the new projects and achievement of envisaged total operating income and profitability margins.

Negative factors

- Any higher than envisaged large debt-funded expansion or higher than envisaged exposure towards group companies resulting in significant decline in debt coverage indicators.
- Any further decline in ECU realization leading to further 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

Outlook: Negative

The outlook of PCL has been revised from 'Stable' to 'Negative' on the basis of decline in the operational and financial performance of the company characterized by decline in scale of operations and profitability on account of significant decline in ECU sales realizations. The outlook may be revised to stable in case PCL demonstrates improvement in profitability margins leading to improvement in overall financial risk profile of the company.

Detailed description of the key rating drivers:

Key strengths

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

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.

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

Moderation in total operating income and profitability of the company during FY24
Total operating income of the company declined by 43.62% during FY24 to Rs. 409.32 crore from Rs. 725.94 crore in FY23 mainly on account of significant decline in ECU sales realization to Rs. 33,959/- during FY24 from Rs. 50,045 /- during FY23. PBILDT margin also declined to 4.71% during FY24 from 29.05% in FY23 owing to decrease in ECU realization, reduced production and increase in power tariff. Going forward, the profitability is expected to improve owing to improvement in the prices of Caustic Soda and increase in ECU realizations during Q1FY25. Further with the operationalization of caustic soda flakes plant from December 2023, the volumes of same are increasing consistently which shall yield better profitability margins. Going forward, any significant decline in ECU realizations resulting in further decline in profitability of the company shall remain negative from credit perspective.

Volatility in ECU realizations of caustic soda and its by-products leading to volatile margins
With a presence in a cyclical industry where the product is also commoditised, the company faces high volatility in the realizations of caustic soda. The net ECU realizations have decreased from ₹50,045 in FY23 to ₹33,959 in FY24 on the back of an increase in imports. Going forward, the net realizations are expected to increase FY25 onwards. However, any substantial drop in ECU realizations, 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 ₹195.13 crore during FY24 as against ₹202.10 crore in FY23. The company has set up its captive power plant of 35 megawatt (MW), which shall get operationalized in Q2FY25 and is expected to reduce the power cost going forward.

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 organized 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 realization of companies in caustic soda manufacturing has moderated in FY24, although expected to improve in FY25.

Liquidity: Adequate
The liquidity position of PCL is adequate characterized by sufficient cushion in projected cash accruals of around Rs. 50 crores against repayment obligations of Rs. 27.79 crores. The company has free cash and bank balance of Rs. 0.47 crore as on March 31, 2024. The average working capital utilization for the past 12 months ended April 2024 stood at 65.41% providing sufficient

headroom to increase its utilization in case of any exigency. The company also has sanctioned term loans of Rs.22 crore from HDFC bank which can be availed in case of any exigency. Further, the management has also indicated to infuse unsecured loans if required.

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

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 & 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)	March 31, 2024 (Abridged)
Total operating income	466.70	725.94	409.32
PBILDT	98.01	210.91	19.26
PAT	56.72	133.98	-25.86
Overall gearing (times)	0.48	0.54	0.52
Interest coverage (times)	11.11	26.13	1.06

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	133.27	CARE BBB-; Negative
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	75.00	CARE BBB-; Negative / 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	133.27	CARE BBB-; Negative	-	1)CARE BBB-; Stable (13-Nov-23) 2)CARE BBB- (RWD) (06-Jul-23) 3)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-; Negative	-	1)CARE BBB-; Stable / CARE A3	1)CARE BBB- / CARE A3 (RWD) (27-Dec-22)	1)CARE BB+ / CARE A4+ (CW with

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
				/ CARE A3		(13-Nov-23) 2)CARE BBB- / CARE A3 (RWD) (06-Jul-23) 3)CARE BBB- / CARE A3 (RWD) (05-Apr-23)	2)CARE BBB- / CARE A3 (CW with Developing Implications) (04-Jul-22) 3)CARE BBB- / CARE A3 (CW with Developing Implications) (08-Jun-22)	Developing Implications) (17-Mar-22) 2)CARE BB+ / CARE A4+ (CW with Developing Implications) (17-Jan-22)

LT: Long term; LT/ST: 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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