# Tamilnadu Petroproducts Limited

January 03, 2025

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 271.00 (Enhanced from 256.00) | CARE A+; Stable | Reaffirmed |
| Long-term / Short-term bank facilities | 115.00 (Enhanced from 98.00) | CARE A+; Stable / CARE A1+ | Reaffirmed |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

Ratings assigned to bank facilities of Tamilnadu Petroproducts Limited (TPL) takes into account strong financial profile marked by minimal debt and comfortable liquidity position of the company. 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. Ratings also take note of the proposed capacity expansion program which is partly debt funded.

However, ratings are 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 profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins above 15%.
- Reduction in group exposure.

**Negative factors**

- Decline in PBILDT margins below 4% on a sustained basis.
- 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 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 operation for over three decades, and has three major divisions, namely, Linear Alkyl Benzene (LAB), Heavy Chemical Division (HCD) and Propylene Oxide (PO) with LAB contributing 82% revenue in FY24 (refers to April 01 to March 31), while HCD and PO contribute to 9% and 9%, respectively.

**Established market position backed by strong relationships with reputed clientele**

TPL is one of the leading manufacturers (~23% 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 monthly based on international prices of key raw materials. Majority revenues of LAB division are from firm off-take agreements.

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 while chlorine is partly consumed internally and partly sold to Manali Petrochemicals Limited (MPL; rated 'CARE A+; Stable/ CARE A1+'). Propylene Oxide (PO), manufactured by TPL since January 2019, is entirely sold to its group company, MPL.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited'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, any disruption in power would impact the production line. This is mitigated with the company using its own power source for captive consumption. The LAB plant maintained a high utilisation rate of 80%-90% in the last three years, except for FY24, where it dropped to 74% due to a 54-day production disruption caused by a cyclone Michaung in December 2023.

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 ~70-80% over the last four years. Integrated nature of operations support the company in achieving sustained operating efficiency.

**Progress in expansion project**

In LAB division, the company has proposed to increase capacity from 120,000 metric tonne per annum (MTPA) to 145,000 MTPA at an estimated cost of ~₹ 303 crore. In HCD division, TPL proposes to replace the current mono-polar membrane technology for manufacturing 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 ₹ 207 crore. Chlorine from the additional capacity is expected to be largely sold to MPL and consumed internally for PO manufacturing. The capacity expansion was originally estimated at a total cost of ₹405 crores. However, the total cost estimation revised to ₹510 crore considering the time overrun due to delay in obtaining statutory approvals. Project cost is to be funded in the debt-equity ratio of 39:61, towards which a sanction for loan of ₹ 200 crore has been obtained. Financial closure has already been achieved, environmental clearance is in place, both projects are expected to be completed in FY26 to FY27 period.

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 ~₹ 282 crore as on September 30, 2024, the impact on capital structure is not expected to be significantly adverse. As on November 30, 2024, the company has combinedly incurred ~₹185 crore with marginal debt funding. Timely completion of the project, stabilisation of the operation on the expanded capacity and off-take of the same would be key to the company's prospects.

**Comfortable capital structure**

The overall gearing remained comfortable at 0.07x as on September 30, 2024, against 0.02x as on March 31, 2024. The company had minimal long-term debt. The company has investments in subsidiaries which stood at ₹ 96.45 crore as on September 30, 2024. This translated to 12% of the net worth of TPL as on March 31, 2024. These companies were incorporated over a decade ago for some projects in southeast Asia but currently are non-operational. These subsidiaries do not have any major assets. Though TPL plans to repatriate funds from their non-operational international subsidiaries in the near future, adjusting for the exposure in subsidiaries from the net worth, overall gearing continues to remain healthy at 0.08x as on September 30, 2024.

**Key weaknesses**

**Drop in total operating income (TOI) in FY24**

The company's TOI grew at compound annual growth rate (CAGR) of 6% over the last five years ended FY24. Barring FY21, which was impacted by COVID-19, and FY24, which saw production disruptions due to a cyclone, the company has been posting steady year-on-year growth in TOI. In December 2023, production was interrupted by floods caused by Cyclone Michaung, leading to a 54-day shutdown of the LAB plant from December 2023 to January 2024, and a three-week halt at the Chlor Alkali plant. This resulted in 11% decline in capacity utilisation and sales volume for FY24. Additionally, the year saw a decrease in realisation due to cheaper imports. Production disruption and a drop in realisation led to moderation in TOI to ₹1,668 crore in FY24 (PY: ₹2,150 crore). However, with volume levels nearly restored in the current year, TOI grew by 3% to ₹912 crore in H1FY25 sequentially compared to ₹845 crore in H1FY24. Margins in H1FY25 moderated due to higher import cost of n-paraffin, resulting from the non-availability of kerosene as the key supplier, CPCL, underwent plant maintenance for ~2 months.

**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 its PO division, the dependence on LAB remains high at ~80%. LAB finds applications 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 over 80% 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 commoditised industry with limited product differentiation. LAB realisation in the domestic market is impacted by competition from domestic and global suppliers. These players are large integrated players in the petrochemical segment and enjoy a considerable amount of pricing flexibility against standalone players such as TPL. TPL's margins are also exposed to 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 for the previous month, any extreme variation in crude prices is still a concern in the short term. The HCD division is also a cyclical business, with prices exhibiting a high level of volatility. Global caustic soda prices dropped significantly in FY24; however, they started recovering in H1Fy25.

**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, leading to a drop in realisation due to cheaper imports. The application for the next term is in process. The GoI has mandated BIS certification to curb substandard imports. Despite this, increasing imports from the Middle East, especially Saudi Arabia and Qatar, continue to pressure domestic pricing. However, ADD is expected in the future, and imports from Qatar and other regions are expected to reduce in the coming year.
The demand is expected to be favorable considering 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 investment in expansion of LAB's domestic capacities.
TPL is also embarking on an expansion program on the LAB division as the demand outlook would remain positive. While imports continue to remain a threat as referred to earlier, most buyers prefer dual sourcing models, and TPL is expected to benefit from this by capitalising on the existing relationship with its customers and tie up capacities in the near term.
On the caustic soda front, after a dip in FY24 considering cyclical downturn, the prices saw a recovery in H1FY25. Inherent cyclicality of the caustic soda industry poses a threat to 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 two 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 September 2024 is comfortable at ~30.11%. The company has cash and bank balances of ₹ 282 crore as on September 30, 2024, with net debt position remaining negative. At a consolidated level, the cash and bank balances were at ₹ 373 crore as on September 30, 2024.

## 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

| Macroeconomic indicator | Sector | Industry | Basic industry |
|---|---|---|---|
| Commodities | Chemicals | Chemicals and petrochemicals | Petrochemicals |

TPL is headquartered in Chennai and is a part of the AM International group. TPL was set up in 1984 as a joint venture between SPIC Limited 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 manufacturing Linear Alkyl Benzene (LAB), which is a key input for manufacturing detergents. Heavy Chemicals Division is engaged in manufacturing caustic soda and chlorine (by-product of Caustic Soda). In FY19, TPL started manufacturing propylene oxide (PO). As on September 30, 2024, the company has an installed capacity 120,000 metric tonne per annum (MTPA) LAB, 56,100 MTPA of Caustic soda and 15,000 MTPA of propylene oxide. TPL's production facilities are in Manali, an industrial suburb of Chennai.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | H1FY25 (UA) |
|---|---|---|---|
| Total operating income | 2,150.25 | 1,668.57 | 911.7 |
| PBILDT | 127.99 | 72.68 | 19.41 |
| PAT | 89.31 | 42.78 | 16.20 |
| Overall gearing (times) | 0.10 | 0.02 | 0.07 |
| Interest coverage (times) | 18.83 | 10.12 | 6.98 |

A: Audited; UA: Unaudited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | | - | - | - | 71.00 | CARE A+; Stable |
| Non-fund-based - LT/ ST-BG/LC | | - | - | - | 115.00 | CARE A+; Stable / CARE A1+ |
| Term Loan-Long Term | | - | - | January 2031 | 200.00 | CARE A+; Stable |

## Annexure-2: Rating history for 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-Cash Credit | LT | - | - | | | | |
| 2 | Fund-based - LT-Cash Credit | LT | 71.00 | CARE A+; Stable | - | 1)CARE A+; Stable (21-Dec-23) | 1)CARE A+; Stable (09-Dec-22) | 1)CARE A; Stable (15-Dec-21)<br><br>2)CARE A-; Stable (18-May-21) |
| 3 | Non-fund-based - LT/ ST-BG/LC | LT/ST | 115.00 | CARE A+; Stable / CARE A1+ | - | 1)CARE A+; Stable / CARE A1+ (21-Dec-23) | 1)CARE A+; Stable / CARE A1+ (09-Dec-22) | 1)CARE A; Stable / CARE A1 (15-Dec-21)<br><br>2)CARE A-; Stable / CARE A2+ (18-May-21) |
| 4 | Term Loan-Long Term | LT | 200.00 | CARE A+; Stable | - | 1)CARE A+; Stable (21-Dec-23) | 1)CARE A+; Stable (09-Dec-22) | 1)CARE A; Stable (15-Dec-21)<br><br>2)CARE A-; Stable (18-May-21) |

LT: Long term; ST: Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

## Annexure-4: Complexity level of 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 complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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**About us:**

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