Chemfab Alkalis Limited

April 04, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	-	-	Reaffirmed at CARE A-; Stable and Withdrawn
Short-term bank facilities	-	-	Reaffirmed at CARE A2+ and Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed and withdrawn the outstanding ratings of 'CARE A-; Stable/ CARE A2+' assigned to bank facilities of Chemfab Alkalis Limited (CAL) with immediate effect. The above action has been taken at the request of CAL and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE Ratings.

Ratings assigned to bank facilities of CAL continue to factor in the experienced promoters and management, long track record of operations in the caustic soda business, diversified client base across industries and comfortable capital structure.

Ratings are constrained by the inherent volatility present in realisations of electro chemical units (ECU), exposure of margins to volatile raw material prices and presence in a competitive industry.

Analytical approach: Consolidated

CARE Ratings has considered consolidated financials as CAL and its subsidiary have operational linkages and are managed by common promoters. Details of entities consolidated are mentioned in Annexure-6.

Outlook: Stable

CARE Ratings expects CAL would continue to maintain its financial risk profile aided by the improvement in the PVCO segment.

Detailed description of key rating drivers

Key strengths

Experienced promoters and management

CAL was promoted by late Dr C H Krishnamurthi Rao, who was a technocrat and an industrial entrepreneur. His son, Suresh Krishnamurthi Rao, a management graduate with three decades of experience, is CAL's current chairman. CAL's day-to-day operations are managed by V M Srinivasan, the company's CEO, who has almost three decades of experience in plastics and chemical business.

Long track record of operations in chlor-alkali business

The company's Pondicherry plant has a track record of over four decades in the production of caustic soda. The caustic soda unit at Pondicherry is one of the early adopters of membrane cell technology for electrolysis of salt, which is relatively less polluting and energy efficient. The plant was initially started with 25 tonnes per day (TPD) capacity in 1985 and subsequently expanded in phases over the years to 185 TPD as on September 30, 2023. The capacity utilisation levels had been comfortable at over 80% in the last few years. The chlorine demand dictates the utilisation of caustic soda as disposal of chlorine is a major issue faced by industry. CAL's operation is integrated with by-product of one process used as raw material (Chlorine) for another process (Hydrochloric Acid), enabling the company to optimally utilise its production capacity. The chlor-alkali is the major revenue generator for the company contributing to ~62% of the company's total operating income (TOI) in FY24.

Diversification in clientele across industries

CAL's chlor-alkali products find application across industries such as textiles, fast-moving consumer goods (FMCG), petrochemicals, acids and chemicals, pharmaceutical and paper industries, which keeps its client profile moderately diversified. While the prices have remained volatile, the company's sales volume has been stable due to such diversification in industries.

The company's PVC-O pipes segment, which was previously dominated by private-sector customers, mainly farmers' associations for irrigation projects, has now diversified its order book. It has expanded its customer base to include engineering, procurement, and construction (EPC) contractors engaged in government water supply projects. The company is strategically aligning with

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

government initiatives including the Jal Jeevan Mission, as more state government boards adopt and implement PVC-O pipes for infrastructure projects.

Improvement in PVCO segment cushioning the fall in the chemicals segment

The realisations of ECU have significantly improved which has aided CAL's TOI and profitability in FY23. However, from Q4FY23 onwards, there has been a fall in the caustic soda prices leading to fall in revenue from chemical segment for CAL as well. The company reported a TOI of ~₹201 crore in FY24 (PY: 293 Cr) and ~₹142 crore for the 9M FY25 period (PY: 154 Cr for 9M FY24). This fall in the revenue from chemical segment has been offset by improvement in the PVCO segment. CAL diversified its product profile beyond chemicals and had forayed in the PVC-O pipes segment with a production line in Sricity, Andhra Pradesh, from December 2018. The utilisation and sales in this remained very low until FY23 due to COVID-19- related disruptions and delays in the government approvals and registrations. However, with the government approval in place and PVCO pipes being added in the Schedule of Rates of Government for Government projects, the sales have seen an uptick in FY24. The TOI from the PVCO segment increased to ₹126.12 crore in FY24, compared to ₹38.56 crore in FY23. For the 9M FY25 period, sales stood at ₹99.92 crore, up from ₹91 crore in 9M FY24.

Key weaknesses

Inherent cyclicality in caustic soda industry

As the chlor-alkali and inorganic chemicals are commodity by nature, the prices are governed by international and domestic demand/supply conditions, and CAL's profitability margins are exposed to volatile ECU realisations. The caustic soda industry is inherently cyclical. The industry witnessed a cyclical downturn after H1FY20, which was further exacerbated in FY21 owing to the COVID-19 pandemic-related contraction in demand from major end-use industries. The ECU realisations dropped to a decadal low level in FY21. However, from March 2021 onwards, the sector had seen a revival with an improvement in demand from end-user industries and better availability of raw materials, leading to a rebound in the ECU realisations. After peaking out in FY23, the ECU realisations started cooling down in FY24.

Margins exposed to raw material price volatility and high power cost

The key raw materials are price sensitive and highly volatile. In FY22, FY23 and FY24, due to good monsoon and intermittent rains, salt production got impacted in the South India. Consequently, the prices of salt have seen an increase and due to sourcing form Gujarat, there has been an increase in associated freight expenses. In the PVCO segment, the PVC resin prices have seen a significant increase in FY22 due to global supply disruptions, however, it has cooled off since then in FY23. Another major parameter determining the profitability is the power cost. The caustic soda industry is highly power intensive, where power cost constitutes ~30%-40% of the cost of sales. This has been maintained at similar levels as CAL's power supply and pricing has been stable over the past years owing to the reliance on the grid power from the Union Territory of Puducherry.

Capital expenditure projects in company and its subsidiary

Project in Standalone level:

The company has completed capacity expansion and debottlenecking of its caustic soda plant to 185TPD in FY23. In its PVCO segment, the company has increased its capacity from existing capacity of 6000MT to 14000MT in the current year FY25. Previously the company operated two production lines which produce pipes of up to 400mm diameter specification. CAL commissioned the third and fourth lines and the "Consent to Operate" for the same has been received in July 2024. One of the lines is of higher capacity with capability to manufacture higher diameter pipes upto 630 mm pipes, enhancing the company's product range offering to the market from 110 mm up to 630 mm diameter pipes. This expansion project was partly funded through debt. CAL further plans to add three more lines in FY 25-26, increasing total capacity to seven lines by FY26.

Green-field project under Subsidiary:

The company had earlier planned to set-up an integrated green-field project of 250 tonnes per day caustic soda capacity in Karaikal under its wholly owned subsidiary, Chemfab Alkalis Karaikal Limited (CAKL), however, given the market conditions, the same has been put on hold. The Aluminum Chloride project, set up under CAKL, was successfully commissioned in February 2024.

Competition from established players

CAL is relatively a small player in the caustic soda market and faces competition from the other large domestic players apart from the competition from the imports. However, it is to be noted that the chlor-alkali industry is mostly a regional one as transporting to a long distance will not be feasible and adds to the logistics cost; and therefore, the competition is limited in South India with fewer players.

Liquidity: Strong

CAL's liquidity position is adequate with comfortable accruals of ~₹50 crore, which is expected to be sufficient to meet its term debt repayment obligations. The company also has free cash and liquid investments of ₹7.69 crore as on March 31, 2024.

Applicable criteria

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

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Chemicals and petrochemicals	Commodity chemicals

Chemfab Alkalis Limited (CAL) belongs to the TEAM group of companies and is engaged in the manufacture and sale of chemicals, majorly caustic soda, and PVCO pipes from its manufacturing units at Pondicherry and Sricity (Andhra Pradesh), respectively.

Prior to March 2017, the caustic soda plant was under "Chemfab Alkalis Limited", and the sodium chlorate plant was under "Teamec Chlorates Limited" (Teamec). While Teamec was operational from 2012, Chemfab Alkalis Limited is operational from 1983. Teamec acquired Chemfab Alkalis Limited effective from March 30, 2017, and subsequently changed its name to CAL in July 2017. The caustic soda plant of CAL initially started with 25 Tonnes per day (TPD) capacity in 1985 and subsequently expanded in over the years to 180 TPD as on November 30, 2023.

Brief Financials (₹ crore) (Consolidated)	March 31, 2023 (A)	March 31, 2024 (A)	9M FY25 (UA)
Total operating income	333.06	327.30	242.05
PBILDT	110.98	54.71	30.38
PAT	64.58	26.32	2.25
Overall gearing (times)	0.01	0.05	NA
Interest coverage (times)	214.29	31.16	9.04

A: Audited UA: Unaudited; NA: Not available; Note: these 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: 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		-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	March 2028	0.00	Withdrawn
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn

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 2025-2026	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	Non-fund-based - ST-BG/LC	ST	-	-	1)CARE A2+ (04-Apr-25)	-	1)CARE A2+ (01-Feb-24)	1)CARE A2+ (07-Nov-22)	1)CARE A2+ (05-Oct-21)
2	Fund-based - LT-Cash Credit	LT	-	-	1)CARE A-; Stable (04-Apr-25)	-	1)CARE A-; Stable (01-Feb-24)	1)CARE A-; Stable (07-Nov-22)	1)CARE A-; Stable (05-Oct-21)
3	Fund-based - LT-Term Loan	LT	-	-	1)CARE A-; Stable (04-Apr-25)	-	1)CARE A-; Stable (01-Feb-24)	-	-

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	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please [click here]

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Chemfab Alkalis Karaikal Limited	Full	Subsidiary

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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