TGV SRAAC Limited

December 31, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	183.03 (Reduced from 213.12)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed; Outlook revised from Negative**
Long Term / Short Term Bank Facilities	346.68 (Reduced from 346.69)	**CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable / A Two Plus)**	**Reaffirmed; Outlook revised from Negative**
Short Term Bank Facilities	24.20 (Reduced from 26.95)	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Total Facilities	**553.91 (Rs. Five Hundred Fifty-Three Crore and Ninety-One Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of TGV SRAAC Limited (SRAAC) continue to derive strength from its experienced promoters, integrated manufacturing plant with proven track record in manufacturing of chlor-alkali products, improved captive power arrangements leading to relatively better control over power cost, established relationship with key clients and suppliers, diversified end user industries and synergies derived from group companies. The ratings also factor its comfortable capital structure.

The ratings are, however, constrained by its susceptibility to volatility in prices of its raw material and sales realization, high utilization of working capital bank limits, moderate debt service coverage indicators on the back of its recently concluded debt-funded capex and its presence in an inherently cyclical caustic-soda industry.

Outlook: Stable

The revision in the outlook on the long-term rating of SRAAC from 'Negative' to 'Stable' factors revival in the caustic-soda industry from March 2021 onwards with improvement in demand from end user industries leading to rebound in the electro-chemical unit (ECU)[2] realizations which is expected to result in improved operating profitability of SRAAC in the medium-term.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade:

- Notable improvement in scale of operations marked by total operating income (TOI) of more than Rs.1,300 crore while achieving PBILDT margins of more than 17% on sustained basis
- Improvement in its total debt/ PBILDT to less than 2.50 times on sustained basis

Negative Factors – Factors that could lead to negative rating action/downgrade:

- Sustained pressure on its profitability marked by PBILDT margin falling below 15% on a sustained basis thereby adversely impacting its debt coverage indicators
- Heavy dumping of caustic soda products significantly impacting its ECU realizations
- 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
- Significantly more than envisaged debt funded capex/investments leading to its total debt/ PBILDT exceeding 3.50 times on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

SRAAC is promoted by Mr. T G Venkatesh who is a commerce graduate and hails from an industrial and political background. He pioneered TGV group and diversified the group from manufacturer of industrial chemicals to other business divisions like health care products, aqua culture, real estate, pharmaceuticals and hospitality. SRAAC is the flagship company of the group.

[1]Complete definitions of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.
2Caustic soda, chlorine and hydrogen are co-products and hence ECU refers to weighted average realizations of the above co-products

Integrated operations and satisfactory operational performance along with better control over cost of power consumed

The operations of SRAAC are highly integrated with by-product of one process being used as raw material for another product, enabling the company to optimally utilize its production capacity. This also protects the company from the effects of cyclicality in the demand for its certain products to some extent, given a diversified product basket. The operational performance of the company has been satisfactory during FY21 (FY refers to the period from April 1 to March 31) and the company operated at around 76% capacity during the year. The caustic soda industry is power intensive industry whereby power cost constituted around 40%-47% of its cost of sales (FY18-20) and 35-40% of gross sales (FY18-20). In order to reduce its power cost, the company undertook modernization of caustic soda division which resulted in lower power and steam consumption. This apart, the company increased its power procurement from Andhra Pradesh Gas Power Corporation Limited (APGPCL), through additional equity investment of Rs.76.90 crore for additional share of 31.60 MW. The average cost of power to the company reduced to Rs.4.78 per KWH during FY21 as against Rs.5.63 per KWH during FY20 thereby supporting its cost structure.

Established relationship with key clients and suppliers and company catering to diversified end user industries

The company has long and established manufacturing track record of almost four decades in manufacturing of chemicals. Over the years, SRAAC has established long term relationship with more than 200 clients. The products of the company have varied application across diverse range of industries including textile, pulp & paper, alumina, soaps & detergents, petroleum, fertilizers, pharmaceuticals, agrochemicals, water treatment, etc., Further, internally caustic soda is used for castor oil preparation, soap noodles, chloromethane operation. Furthermore, SRAAC also benefits from the synergies brought about by presence of group companies in the similar lines wherein SRAAC procures certain raw material from its group entities (around 21% of total raw material consumed during FY21) and off-take of some of the finished products (13% of net sales in FY21) is from group concerns.

Comfortable capital structure

Despite moderation in its operating profitability during FY20 and FY21, SRAAC's capital structure continued to remain comfortable. The debt to equity and overall gearing ratio of the company remained below unity at 0.50x and 0.82x as on March 31, 2021. Despite the gross debt levels as on March 31, 2021 being relatively higher as against previous year because of increase in term debt for chloromethane expansion, the company was able to maintain a comfortable capital structure backed by a healthy net worth base.

Successful commercialization of its capex

Basis increased demand witnessed by the company for its products under chloromethane division, the company concluded capex for increasing its chloromethane capacity from 125 Metric Tonne Per Day (MTPD) to 250 MTPD in November 2021. The capex was completed at a total cost of Rs.157 crore funded by term debt of Rs.100 crore and balance through internal accruals. Currently with expanded capacity also, the capacity utilization has remained healthy at around 70% as indicated by company's management. Ramp-up of scale of operations and earning envisaged returns from the same would be critical to improve its return on capital employed which had declined to 10.37% during FY21 from its high of 21.75% during FY19. Also, competitive pressure exerted by the established players in the industry would be one of the key rating monitorable.

Liquidity: Adequate

The liquidity of the company is adequate marked by sufficient accruals vis-a-vis its term debt repayment obligations. The operating cycle of the company was negative at 2 days in FY21 due to extended credit period allowed by the creditors. However, the creditors are LC backed and hence result in higher reliance on non-fund-based limits, also the average utilization of fund based working capital limits remained high at 92% for the last twelve months ended November 30, 2021. However, the liquidity of the company is supported by the positive cash flows from operations amounting to Rs 228 crore during FY21. Further, the company has already built-up margin with banks of around Rs.40 crore as on March 31, 2021 vis-à-vis-capex LC repayment of Rs.71 crore due in FY22.

Key Rating Weaknesses

Moderation in TOI and profitability during FY20 and FY21 on the back of cyclical downturn in the industry; albeit expected to again improve during FY22

SRAAC's TOI moderated by around 13% in FY20 and further by around 3% in FY21 on y-o-y basis mainly on account of moderation in realization of caustic soda products especially after H1FY20 due to the inherent cyclical nature of the industry and disruption in businesses caused due to outbreak of Covid-19 pandemic. In line with that, PBILDT and PAT margin also moderated by 361 bps and 122 bps over last two years basis (FY19 V/s FY21) and stood at 15.67% and 5.25% respectively during FY21. Also, the cost of raw materials consumed as a % of its TOI increased from 23% in FY19 to 28% in FY20 and further to 38% in FY21, thereby impacting its profitability. The cyclical nature of SRAAC's caustic business (which is a major contributor to revenue) is evident from the fact that the scale of operations of the company had shown a healthy growth during FY17-FY19 at a CAGR of 14.91% with its PBILDT margin witnessing an improving trend during the said period. Again, with increasing trend in its ECU realizations from March 2021 onwards, its PBILDT margin is envisaged to improve to around 17-18% during FY22. Its TOI during H1FY22 increased by 13% on y-o-y basis to around Rs.558 crore with PBILDT margin of 16.34%.

Exposure of raw material and finished goods price volatility and forex currency fluctuations

The primarily raw materials for SRAAC are potassium chloride, palm fatty acid and related oils, castor oil etc, which form around 20% - 25% of the cost of production. Majority of them are imported. The key raw materials are price sensitive and highly volatile. Thus, its profitability is susceptible to volatility in prices of raw materials. During FY20, SRAAC imported raw materials and capital goods worth Rs.187.00 crore (Rs.150.11 crore in FY20) against which it made exports of Rs.58.30 crore in FY21 (Rs.53.62 crore in FY20), thus partially hedging its foreign currency exposure naturally. Profitability of caustic soda manufacturing companies is linked to the prevailing Electro – chemical unit (ECU) price. Cyclical downturns, or adverse variability in the demand supply balance, may also drag down realisations for caustic soda players. Further, lag between change in the raw material price and reset of finished good price impacts the profitability of the company.

Moderate debt service coverage indicators on the back of its recently concluded pre-dominantly debt funded capex
During FY21 and H1FY22, company concluded its capex for Chloromethane as well as acquired higher equity stake in APGPCL which resulted in high debt level of Rs.539.11 crore as on September 30, 2021 vis-à-vis Rs.420.63 crore as on March 31, 2020. Large part of its outstanding term debt (including Capex LCs) is scheduled to be repaid by end-FY23 leading to moderate debt service coverage indicators in the medium-term. Also, its debt coverage indicators marked by Total debt to GCA moderated to 4.91x during FY21 as against 4.01x during FY20 owing to reduced profitability combined with availment of debt for its capex during FY21.

Analytical Approach: Standalone

Applicable Criteria:
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy of Default Recognition
Rating Methodology – Manufacturing Companies
Financial Ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short Term Instruments

About the Company
Incorporated on July 24, 1981, SRAAC belongs to the TGV Group of industries promoted by Mr. T G Venkatesh. SRAAC is primarily engaged in the business of manufacturing chemicals like caustic soda, caustic potash, sodium hypochlorite, chlorine, hydrochloric acid, hydrogen gas, chloromethane products etc. The company also manufactures castor oil derivatives, fatty acids & consumer products-majorly toilet soaps and is also into power generation. The plant is certified by ISO 9002, ISO 14001 and OHSAS 18001 system certification.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (Prov.)
Total operating income	1,048.09	1,018.37	557.96
PBILDT	163.66	159.57	91.17
PAT	45.71	*52.66	24.41
Overall gearing (times)	0.78	0.82	0.85
Interest coverage (times)	3.68	3.34	4.57

*A: Audited, Prov.: Provisional, *After MAT credit entitlement of Rs.23.71 crore;*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Annexure-2

Covenants of rated instrument/facility: Not applicable

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 31, 2027	163.95	CARE A-; Stable
Fund-based - LT-Working Capital Demand loan		-	-	-	5.52	CARE A-; Stable
Fund-based - LT-Cash Credit		-	-	-	13.56	CARE A-; Stable
Fund-based - ST-Bills discounting/ Bills purchasing		-	-	-	12.65	CARE A2+
Fund-based - ST-FBN / FBP		-	-	-	0.80	CARE A2+
Fund-based - ST-Bills discounting/ Bills purchasing		-	-	-	10.75	CARE A2+
Non-fund-based - LT/ ST-Letter of credit		-	-	-	332.63	CARE A-; Stable / CARE A2+
Non-fund-based - LT/ ST-Bank Guarantees		-	-	-	14.05	CARE A-; Stable / CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	163.95	CARE A-; Stable	-	1)CARE A-; Negative (18-Jan-21) 2)CARE A-; Negative (23-Dec-20)	1)CARE A-; Negative (09-Oct-19)	1)CARE A-; Stable (13-Nov-18)
2	Fund-based - LT-Working Capital Demand loan	LT	5.52	CARE A-; Stable	-	1)CARE A-; Negative (18-Jan-21) 2)CARE A-; Negative (23-Dec-20)	1)CARE A-; Negative (09-Oct-19)	1)CARE A-; Stable (13-Nov-18)
3	Fund-based - LT-Cash Credit	LT	13.56	CARE A-; Stable	-	1)CARE A-; Negative (18-Jan-21) 2)CARE A-; Negative (23-Dec-20)	1)CARE A-; Negative (09-Oct-19)	1)CARE A-; Stable (13-Nov-18)
4	Fund-based - ST-Bills discounting/ Bills purchasing	ST	12.65	CARE A2+	-	1)CARE A2+ (18-Jan-21) 2)CARE A2+ (23-Dec-20)	1)CARE A2+ (09-Oct-19)	1)CARE A2+ (13-Nov-18)
5	Fund-based - ST-FBN / FBP	ST	0.80	CARE A2+	-	1)CARE A2+ (18-Jan-21) 2)CARE A2+ (23-Dec-20)	1)CARE A2+ (09-Oct-19)	1)CARE A2+ (13-Nov-18)
6	Fund-based - ST-Bills discounting/ Bills purchasing	ST	10.75	CARE A2+	-	1)CARE A2+ (18-Jan-21)	1)CARE A2+ (09-Oct-19)	1)CARE A2+ (13-Nov-18)

						2)CARE A2+ (23-Dec-20)		
7	Non-fund-based - LT/ ST-Letter of credit	LT/ST*	332.63	CARE A-; Stable / CARE A2+	-	1)CARE A-; Negative / CARE A2+ (18-Jan-21) 2)CARE A-; Negative / CARE A2+ (23-Dec-20)	1)CARE A-; Negative / CARE A2+ (09-Oct-19)	1)CARE A-; Stable / CARE A2+ (13-Nov-18)
8	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST*	14.05	CARE A-; Stable / CARE A2+	-	1)CARE A-; Negative / CARE A2+ (18-Jan-21) 2)CARE A-; Negative / CARE A2+ (23-Dec-20)	1)CARE A-; Negative / CARE A2+ (09-Oct-19)	1)CARE A-; Stable / CARE A2+ (13-Nov-18)

* Long Term / Short Term

Annexure 3: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working Capital Demand loan	Simple
4	Fund-based - ST-Bills discounting/ Bills purchasing	Simple
5	Fund-based - ST-FBN / FBP	Simple
6	Non-fund-based - LT/ ST-Bank Guarantees	Simple
7	Non-fund-based - LT/ ST-Letter of credit	Simple

Annexure 4: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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