

## Chemfab Alkalis Limited

September 26, 2019

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long term Bank Facilities	61.60 (enhanced from 45.00)	<b>CARE A-; Stable</b> <b>(Single A Minus; Outlook: Stable)</b>	<b>Reaffirmed</b>
Short term Bank Facilities	25.00 (enhanced from 18.50)	<b>CARE A2+</b> <b>(A Two Plus)</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>86.60</b> <b>(Rupees Eighty Six crore and sixty lakh only)</b>		

Details of facilities in Annexure 1

### Rating Rationale

The ratings assigned to the bank facilities of Chemfab Alkalis Limited (CAL) derive strength from the experienced promoters & management, long track record of operations in the caustic soda business, diversified client base across industries, comfortable capital structure and debt protection metrics.

The ratings are, however, constrained by the inherent volatility present in realization of ECU (Electro Chemical Units), pressure on caustic soda production due to lower downstream uses of chlorine. The ratings also take note of the on-going capital expenditure program of the company involving expansion of the existing ECU capacities at Pondicherry (including a desalination plant and sewage treatment plant) and setting up of a second production line in PVC-O pipe plant at Sricity SEZ which is partly funded by debt. The said debt is not expected to have a significant impact on the capital structure of the company; however, any large debt funded capital expansion undertaken by the company would remain a key rating sensitivity.

Going forward, timely completion of these expansion and new PVC-O piping line will be important in scaling up the operations of the company. Volatility in the ECU realisation and its impact on profitability of the company would also be a key rating sensitivity.

### Detailed description of key rating drivers

#### Key Rating Strengths:

##### Experienced promoter and management

CAL, part of the TEAM group, was promoted by late Dr C H Krishnamurthi Rao who was a technocrat and an industrial entrepreneur has 3 decades of experience in Chlor alkali industry.

Mr Suresh Krishnamurthi Rao son of Dr C H Krishnamurthi Rao who is a management graduate has almost two decades of experience is the present chairman of CAL. The CAL day to day operations are managed by Mr V M Srinivasan who is the CEO of the company has almost two decades of experience in plastics and chemical business.

##### Long track record of operations

The company's Pondicherry plant has a track record of 33 years with 125 TPD production of caustic soda. Capacity utilisation levels have been around 83-86% over the last two years for caustic soda plant. CAL has received 'in-principle' approval from Pondicherry Pollution Control Committee for increasing the capacity of its caustic soda plant from the present 125 TPD to 200 TPD and expects to commence operations at 200 TPD in Q4FY20. Company has commenced the operation of PVCO – Pipe production line in Sricity, Andhra Pradesh from December, 2018.

##### Diversified clientele across various industries

CAL's products find application across various industries like textiles, FMCG, petrochemicals, acids & chemicals, pharmaceutical and paper industries. CAL's clientele is diversified across these industries with about 57% of sales for FY19 coming from top ten customers.

##### Comfortable capital structure and debt protection metrics

The capital structure of CAL is comfortable with the overall gearing at 0.14x as on March 31, 2019. The company is currently undergoing capital expenditure for increasing the capacity of caustic soda from 125 TPD to 200 TPD, setting up a desalination plant and sewage treatment plant for water requirement for increased capacity at 200 TPD. CAL is also setting up a 2<sup>nd</sup> production line for PVCO-Pipe with a capacity of 3000 MTPA in Sri City. CAL is expecting the desalination plant and sewage treatment plant to be operational in Q4FY20 and the same will enable CAL to produce caustic soda at 200 TPD.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

Company is expecting to complete the PVCO – Pipe 2<sup>nd</sup> production line by Q4FY20 and start commercial production from FY21. The overall cost of these projects is about Rs.61 cr with Rs.32 cr by way of debt and rest from internal accruals. The debt protection metrics remain comfortable with interest coverage ratio at 25.95x in FY19 (PY: 15.57x) and total debt to gross cash accrual at 0.64 years in FY19 as against 0.44 years in FY18

**Key Rating weakness:**

**Profitability margins determined by cost of power and volatile ECU realisations**

The profitability margins of CAL have mostly been stable in the range of 25-30%. Power is the major cost parameter in the Chlor alkali industry. Company has decided to shut down the operations in Ongole plant due to higher power cost which made running the plant resulting in operational losses. CAL has also booked an impairment loss of Rs 19.63 crore in FY19, which in turn has affected the PAT of the company. In Q1FY20, company has a total operating income of Rs. 50.78 crore, with a PBILDT of Rs.15.80 Crore and a PAT of Rs.8.35 crore.

**Competition from established players**

CAL is relatively small player in the caustic soda market and faces competition from the other large domestic players like Gujarat Alkalis and Chemicals limited, DCM Shriram Limited, Grasim Industries Limited, Sree Rayalaseema Alkalies & Allied Chemicals Ltd. being the dominant players in the domestic industry apart from the competition from imports.

**Liquidity analysis:** Strong - The liquidity position of CAL is marked by strong accruals, with only one day of operating cycle and minimal usage of its cash credit facilities. As on March 31<sup>st</sup>, 2019 Company has a cash and liquid investments of Rs. 1.04 crore. The average working capital utilisation for the past 12 months ended August 2019 was low at 11.30% on a limit of Rs.15 crore.

**Analytical approach:** Standalone

**Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[CARE's Methodology for manufacturing companies](#)

**About the Company**

Chemfab Alkalies Limited has been operational from 1983, prior to March 2017, the caustic soda plant was under "Chemfab Alkalies Limited" and the sodium chlorate plant was under "Teamec Chlorates Limited" (TCL). While Teamec is operational from 2012. Teamec acquired Chemfab Alkalies Limited with effect from March 30, 2017 and subsequently changed its name to CAL in July 2017. FY18 is the first year of the merged entity, viz., CAL. CAL has currently suspended the operations of sodium chlorate plant.

As of July, 2019, CAL has an installed capacity of 125 TPD of caustic soda in Pondicherry and 3000 MTPA of PVCO-Pipes Plant in Sricity (Andhra Pradesh). CAL also produces chlorine, hydrogen, sodium hypo chlorite, and hydro chloric Acid as by products from manufacture of caustic soda.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	181.78	196.23
PBILDT	54.49	63.81
PAT	25.47	16.76
Overall gearing (times)	0.10	0.14
Interest coverage (times)	15.57	25.95

A: Audited

**Status of non-cooperation with previous CRA:**

CRISIL has conducted the review on the basis of best available information and has classified the company as "Not cooperating" vide its press release dated April 30, 2019.

**Any other information:**

Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	25.00	CARE A2+
Fund-based - LT-Term Loan	-	-	April 2025	46.60	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE A-; Stable

**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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-BG/LC	ST	25.00	CARE A2+	-	1)CARE A2+ (07-Aug-18)	1)CARE A2+ (25-Oct-17) 2)CARE A2+ (09-Oct-17)	-
2.	Fund-based - LT-Term Loan	LT	46.60	CARE A-; Stable	-	1)CARE A-; Stable (07-Aug-18)	1)CARE A-; Stable (25-Oct-17) 2)CARE A-; Stable (09-Oct-17)	-
3.	Fund-based - LT-Cash Credit	LT	15.00	CARE A-; Stable	-	1)CARE A-; Stable (07-Aug-18)	1)CARE A-; Stable (25-Oct-17) 2)CARE A-; Stable (09-Oct-17)	-

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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