

## Chemfab Alkalis Limited

October 16, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities <sup>^</sup>	-	-	Reaffirmed at CARE A-; Stable and withdrawn
Long-term Bank facilities	15	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	25	CARE A2+ (A Two Plus)	Reaffirmed
<b>Total Facilities</b>	<b>40</b> <b>(Rs. Forty crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

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, diversification of revenue with scaling up of operations from PVC – O segment, comfortable capital structure and debt protection metrics.

The ratings are, however, constrained by the inherent volatility present in realization of Electro Chemical Units (ECU), and pressure on caustic soda production due to lower downstream uses of chlorine.

The ratings also take note of the envisaged large debt-funded green-field project under its wholly-owned subsidiary and expected funding support from CAL.

CARE has reviewed the rating for long-term bank facility (term loan) and simultaneously withdrawn it with immediate effect. The rating withdrawal is at the request of CAL and 'No Objection Certificate' received from the bank that has extended the facility rated by CARE.

### Rating Sensitivities

#### Positive Factors

- Commencement of operations on the enhanced capacity and achieving envisaged TOI on the new capacity
- Sustained increase in profitability with ROCE over 15% on sustained basis

#### Negative Factors

- Sustained drop in ECU realization leading to significant reduction in cash accruals
- Any other large debt-funded expansion or exposure to group companies resulting in leverage levels exceeding 0.75x on a consolidated basis
- Delay in execution of projects

### Detailed description of the 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. Mr Suresh Krishnamurthi Rao son of Dr C H Krishnamurthi Rao who is a management graduate with almost two decades of experience, is the present chairman of CAL. CAL's day-to-day operations are managed by Mr V M Srinivasan, 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 35 years in the production of caustic soda. Capacity utilisation levels have been around 83%-85% over the last two years for caustic soda plant. The company has commenced the operation of PVC0 (Molecularly Oriented Poly Vinyl Chloride) – 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. In FY20 (refers to the period April 1 to March 31) apart from income chor alkali segment

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

(76%) PVC – O pipe sales accounted for 23% of the total operating income providing diversification in the business. The company's major customers in PVC – O segment currently are from the private sector mainly farmers associations for irrigation projects. Post the BIS approval received in November 2019, the company can supply its pipes to EPC contractors who are under-taking water supply-related government projects as well. The company reported Rs.48 crore sales and PBDIT margin of 30% in this segment in FY20.

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

The capital structure of CAL is comfortable with an overall gearing at 0.16x as on March 31, 2020. The company plans to increase the capacity of caustic soda plant in Pondicherry from 125 TPD to 200 TPD along with setting up of a de-salination plant for water requirement for increased capacity with a total capital expenditure of Rs.36 crore. As on March 31, 2020 the company incurred Rs.26 crore for the project funded through internal accruals. The further enhancement to 200 TPD is expected by March 2021. This apart, CAL is in the process of increasing its PVCO – pipe segment capacity from 3000 MTPA to 6000 MTPA in Sricity with a total project cost of Rs.25 crore funded by debt of Rs.8.41 crore and remaining through internal accruals. As on March 31, 2020 the company had incurred Rs.24 crore for the project.

Both the projects were expected to commence by the end of Q4FY20, however caustic soda expansion was delayed due to delay in statutory approvals capacity expansion in PVC-O segment was delayed due to absence of the OEM support for installation due to travel restrictions on account of COVID - 19. The company expects to commence the operations for additional capacity in the PVC-O segment same by November 2020. CAL had planned to avail Rs.32 crore of debt towards the above-mentioned two projects. However, the company has availed only about Rs.8.41 crore of debt in FY20 while funding the remaining through internal accruals.

The debt protection metrics remain comfortable with interest coverage ratio at 15.77x in FY20 (PY: 26.96x) and total debt to gross cash accrual at 0.71x in FY20.

#### **Project under wholly-owned subsidiary**

The company is planning to setup an integrated Greenfield project at Karaikal under its wholly owned subsidiary-Chemfab Alkalis Karaikal Limited (CAKL). The project envisages 200 TPD caustic soda capacity along with power plant, desalination plant and production of chlorine derivative (aluminium chloride). The project is expected to be funded with 25% equity and 75% debt. CAL has infused equity and preference capital of Rs.8 crore in its subsidiary as on March 31, 2020. CAL's expected to infuse funds towards this project over the next few years concurrent with the project progress. CAKL has been provisionally allotted with land comprising 65 acres from Pondicherry government on lease basis for a period of 30 years and extendable up to 99 years for the project. Final allotment of land, pollution control approval, coastal area approval etc are yet to be obtained.

#### **Key Rating Weaknesses**

##### **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. CAL's profitability margins are also exposed to volatile ECU realisations. The PBILDT margin of the company was 27.32% in FY20 moderated from 32.49% in FY19 majorly on account of reduction in caustic soda realization from Rs.37,413/MT in FY20 to Rs.31,744/MT in FY19. The company was producing sodium chlorate from its Ongole plant. The company has decided to shut down the operations in Ongole plant due to higher power cost. CAL has also booked an impairment loss of Rs 19.63 crore in FY19 and Rs.7.07 crore in FY20, which in turn has affected the PAT of the company during the period. In Q1FY21, CAL has reported total income of Rs.40.67 crore, with PBIDT of Rs.8.19 crore when compared to the total income of Rs.56.70 crore and PBIDT of Rs.18.49 crore in Q1FY20. The company resumed its operations of caustic soda plant from April 7, 2020 and PVC – O pipe plant from May 08, 2020 post nation-wide lock-down imposed from March 24, 2020.

##### **Competition from established players**

CAL is a relatively small player in the caustic soda market and faces competition from the other large domestic players apart from the competition from imports.

**Liquidity analysis:** Strong - The liquidity position of CAL is marked by strong accruals, with only five days of operating cycle and minimal usage of its cash credit facilities. The average working capital utilisation for the past 12 months ended September 2020 was low at 4.37% with sanctioned limit of Rs.15 crore. As on March 31, 2020, the company had a cash balance of Rs.0.02 crore.

### Industry and prospects

Caustic soda is mainly used in industries like aluminium, paper and soaps & detergents. Lower off-take from end-user industry and surge imports were primary reasons for the reduction in prices of caustic soda. The lower caustic soda prices in the medium term is expected to exert pressure on profitability in the chlor alkali segment of the company.

The Indian plastic pipes and fittings industry derives demand from the construction and irrigation sectors, substitution of metal pipes with polymer pipes, and replacement demand. The irrigation sector is one of the key end-user segment for plastic pipes. Furthermore, demand is expected to come from public-sector projects undertaken by the central, state and municipal-level bodies as well as private sector investments in water management.

The PVC – O segment, which is margin accretive, the company is scaling up in its existing capacity. This segment witnessed reduction in sales in Q1FY21 compared with last year corresponding period, mainly on account of COVID – 19 pandemic. Going forward, commencement of production in additional line and scaling up of operation while maintaining profitability and managing working capital effectively in this segment are key for the prospects of the company.

**Analytical approach:** Standalone

### Applicable Criteria

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

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

[Policy on withdrawal of ratings](#)

[Criteria for Short Term Instruments](#)

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

[Financial ratios - Non-Financial Sector](#)

[Liquidity Analysis of Non-financial Sector Entities](#)

### About the Company

Chemfab Alkalis Limited has been operational from 1983, prior to March 2017, the caustic soda plant was under “Chemfab Alkalis Limited” and the sodium chlorate plant was under “Teamec Chlorates Limited” (TCL). While Teamec is operational from 2012. Teamec acquired Chemfab Alkalis 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 September 2020, CAL has an installed capacity of 125 TPD of caustic soda in Pondicherry and 3000 MTPA of PVC0-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)	FY19 (A)	FY20 (A)
Total operating income	196.34	204.92
PBILDT	63.80	55.98
PAT	16.74	25.57
Overall gearing (times)	0.14	0.16
Interest coverage (times)	25.96	15.77

A: Audited

**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

**Annexure-1: Details of Instruments/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	-	-	-	0.00	Withdrawn
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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	25.00	CARE A2+	-	1)CARE A2+ (26-Sep-19)	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	-	-	-	1)CARE A-; Stable (26-Sep-19)	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 (26-Sep-19)	1)CARE A-; Stable (07-Aug-18)	1)CARE A-; Stable (25-Oct-17) 2)CARE A-; Stable (09-Oct-17)

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not Applicable

**Annexure 4: Complexity level of various instruments rated for this company**

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

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. 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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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

### Disclaimer

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