Gujarat Alkalies and Chemicals Limited

October 08, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	433.55 (enhanced from 349.57)	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	45.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**478.55 (Rupees Four Hundred Seventy Eight Crore and Fifty Five Lakh only)**		
Commercial Paper Issue	100.00 (Rupees One Hundred Crore only)	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of facilities/ instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings for bank facilities and instruments of Gujarat Alkalies and Chemicals Ltd (GACL) continue to draw strength from its strong parentage, well-established position as the market leader in domestic chlor-alkali industry along with its integrated operations and wide product portfolio which finds application across diversified end-use industries.

The ratings are also underpinned by its state-of-the-art technology, captive power generation to meet part of its energy requirements along with its comfortable liquidity and strong debt coverage indicators. The ratings also factor improvement in its scale of operations and profitability during FY18 (refers to period from April 1 to March 31) due to increased sales realization for caustic soda products driven by global supply-demand dynamics and reduction in prices of majority of raw materials.

The ratings also take cognizance of the fact that GACL has investment requirements for its joint venture (JV) with National Aluminium Company Ltd (NALCO) for manufacturing caustic soda. Apart from project implementation risk, GACL would also have to manage the saleability risk associated with the new capacity including the disposal of chlorine after factoring the off-take arrangement with NALCO.

The long term rating, however, continues to be constrained by susceptibility of its profitability to adverse movement in market price of gas and power cost which constitute a significant part of its cost structure, risk related to adverse movement in foreign exchange rates, large-sized capex/investment plans and its presence in a cyclical industry which also faces competition from imports; albeit the same is currently being mitigated due to presence of anti-dumping duty.

GACL's ability to increase its scale of operations and maintain stability of its high profitability by securing significant portion of its power requirement through captive low cost sources (i.e., renewable energy) so as to shield against market-driven fluctuations of gas/energy prices and through greater share of value-added products in its sales-mix so as to improve captive consumption of chlorine; thereby resulting in greater resilience of its profitability even in the scenario of any future withdrawal of anti-dumping duty by Government of India on import of caustic soda shall be the key rating sensitivities. Further, significant adverse impact of more than envisaged large-size debt funded capex/investments on its capital structure shall also be a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Market leader in domestic caustic soda industry: GACL is the largest independent producer of caustic soda in the country with an installed capacity of 412,500 metric tonne per annum (MTPA) as on March 31, 2018 at its plants in Vadodara and Dahej in Gujarat. GACL has gradually built its leadership position through continuous expansion of production capacities to cater to the growing demand for its products over the last three decades.

Over the years it has also introduced new chlorine derivatives (downstream products) for captive utilization of chlorine, an essential by-product generated during manufacturing of caustic soda. This has equipped the company to leverage upon its large production capacity and protect its profitability from the effects of volatility in chlorine prices to some extent.

Integrated operations and diversified customer base: The operations of GACL are well-integrated with by-product of one process being used as raw material for another process, enabling the company to optimally utilize its large production capacity. It also protects GACL's profitability to an extent from the effects of inherent cyclicality in the demand for its

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

major products, as adverse demand scenario for one set of products is countered by favorable movement in other products. GACL's products find application across diverse range of industries.

State-of-the-art technology and captive power generation to meet part of its energy requirements: The cost structure of GACL has remained competitive on account of its membrane cell technology used for electrolysis of salt which consumes one-third less power as compared to the traditional mercury cell technology and is also less polluting, captive power plant for meeting some of its energy requirements and investment in wind-mills to offset higher cost of power purchased from the market. Further, GACL has already commissioned a 15MW solar power plant in June 2018 at Patan thus adding to its captive power generation capacity.

Healthy financial risk profile and sound liquidity: GACL's financial risk profile continued to remain healthy. Its PBILDT margin improved y-o-y by 936 bps to 33.65% during FY18 primarily on account of increased sales realization for caustic soda products on the back of increased prices of caustic soda. Further, it had a comfortable overall gearing of 0.09x and Total Debt/GCA of 0.42 years as on March 31, 2018. The operating cycle remained stable at 48 days during FY18, while the utilization of fund-based working capital limits was nil during 12 months ended August 2018, indicating strong liquidity. Moreover, it had free cash and bank balance of Rs.508 crore as on March 31, 2018.

Improved prospects for the caustic soda industry: The outlook for the domestic chlor-alkali industry is likely to remain positive in the near-term, mainly on account of healthy demand from its key end-use industries like textile, pulp and paper, aluminum, pharmaceuticals and agrochemicals and supply cuts due to closure of some plants in China and Europe on account of stricter environmental norms in the said countries. As per Centre for Monitoring Indian Economy (CMIE), the demand for caustic soda is expected to increase by around 4% in FY19. Moreover, with supply cuts from China and Europe, imports of caustic soda are costlier than domestically produced caustic soda, thus enhancing demand of domestically produced caustic soda in India. Further, extension of anti-dumping duty on caustic soda from certain countries is also likely to help in limiting the imports thereby benefitting the domestic players.

Key Rating Weaknesses

Susceptibility of its profitability to adverse movement in market price of gas and power cost along with competition from imports: GACL's profitability is susceptible to adverse movement in market price of gas and power cost since electrolysis is an energy intensive process and power cost constitutes a significant part of its cost structure. The power cost comprised around 29% of GACL's total operating income in FY18 (32% in FY17). The Indian chlor-alkali industry faces competition from cheap imports of lower power cost countries; however, the same is being mitigated by presence of anti-dumping duty on imports of caustic soda.

Risk of adverse movement in foreign exchange rates; however, export volumes help provide natural hedge: GACL is exposed to risk of adverse movement in foreign exchange rates on account of its long-term borrowings denominated in USD, raised for part-funding of its capex plans. Further, as a matter of policy, GACL does not hedge its foreign currency exposure. During FY18, GACL imported raw materials and capital goods worth Rs. 175.79 crore and had repayment liabilities of Rs. 62.19 crore against which it made exports of Rs. 315.31 crore, thus providing a natural hedge to its foreign currency exposure. Although, the interest cost on the forex borrowings is lower than that on comparable domestic rupee loans; the recent depreciation of rupee may have an adverse impact on the profitability of GACL.

Large-size own capex plan and investment requirements in its JV along with associated salability risk: GACL has plans to incur capex of around 1,735.23 crore over the next three year period ending FY21 which is expected to be funded by debt of Rs.898 crore and the balance through internal accruals. Further, GACL has entered into 60:40 joint venture with NALCO; GACL-NALCO Alkalies & Chemicals Pvt Ltd (GNAL; rated CARE A; Stable) for setting up a chlor-alkali plant for producing 292,000 MTPA of caustic soda at Dahej, in the vicinity of GACL's existing plant. The joint venture would also establish a coal-based power plant (130 MW) to meet the power requirements on a captive basis. The cost of the JV project is expected to be around Rs.2,000 crore, to be funded through debt and equity in the ratio of 2.33:1, translating into an exposure of Rs.360 crore of equity investment by GACL spread over the next two years. As of July, 2018 GACL has already infused Rs.222 crore and with strong cash accruals and low debt repayment liabilities, GACL is expected to fund the balance equity commitment with reasonable comfort. However, the tie-up of project debt of GNAL is still pending. Out of the total caustic soda to be produced from the JV plant, 54,750 MTPA would be provided to NALCO's alumina refinery and the remaining would be sold in the open market; the marketing rights of which would vest with GACL. The unit would also contain manufacturing facilities for other downstream products, for utilization of chlorine, an essential by-product generated for manufacturing of caustic soda. Thus, GACL will be exposed to marketing risk as well as risk of chlorine disposal for GNAL.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]

About the Company
GACL; (CIN: L24110GJ1973PLC002247) was promoted in 1973 by the Government of Gujarat (GoG) through its industrial investment arm, Gujarat Industrial Investment Corporation Ltd (GIIC). As on March 31, 2018, GoG as the promoter, through its various undertakings, held 46.28% equity in the company, the largest being through Gujarat State Investments Ltd (GSIL) with 20.87% holding. GACL is the largest player in the domestic caustic chlorine industry with integrated operations. It produces a wide range of products including caustic soda, liquid and gaseous chlorine, hydrogen peroxide, phosphoric acid and aluminium chloride which find application across a diversified group of industries including textile, pulp and paper, aluminium, detergents, soaps, rayon, plastics, pharmaceutical and agricultural chemicals. GACL's manufacturing facilities had a combined installed capacity for production of 412,500 metric tonne (MT) of caustic soda per annum as on March 31, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	2,123	2,512
PBILDT	515	845
PAT	308	535
Overall gearing (times)	0.13	0.09
Interest coverage (times)	40.17	56.73

A: Audited

GACL reported total operating income of Rs.762 crore with PAT of Rs.183 crore during Q1FY19 as against total operating income of Rs.612 crore with PAT of Rs.95 crore during Q1FY18.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Mr. Naresh M. Golani
Tel: 079-4026 5618
Mobile: +91-98251 39613
Email: naresh.golani@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

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
Term Loan-Long Term	-	-	September 2024	303.55	CARE AA+; Stable
Fund-based - LT-Cash Credit	-	-	-	130.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	45.00	CARE A1+
Commercial Paper-CP/STD	-	-	7-364 days	100.00	CARE A1+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	303.55	CARE AA+; Stable	-	1)CARE AA+; Stable (05-Oct-17)	1)CARE AA+ (20-Oct-16)	1)CARE AA+ (14-Oct-15)
2.	Commercial Paper-CP/STD	ST	100.00	CARE A1+	-	1)CARE A1+ (05-Oct-17)	1)CARE A1+ (20-Oct-16)	1)CARE A1+ (14-Oct-15)
3.	Fund-based - LT-Cash Credit	LT	130.00	CARE AA+; Stable	-	1)CARE AA+; Stable (05-Oct-17)	1)CARE AA+ (20-Oct-16)	1)CARE AA+ (14-Oct-15)
4.	Non-fund-based - ST-BG/LC	ST	45.00	CARE A1+	-	1)CARE A1+ (05-Oct-17)	1)CARE A1+ (20-Oct-16)	1)CARE A1+ (14-Oct-15)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-98407 54521
Tel: +91-80-4115 0445, 4165 4529
E-mail: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91-0172-490-4000 / 01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691