TGV SRAAC Limited

October 09, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating action**
Long term bank facilities	216.49 (reduced from 273.34)	**CARE A-; Negative (Single A Minus; Outlook: Negative)**	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Short term bank facilities	26.95	**CARE A2+ (A Two Plus)**	Reaffirmed
Long term/Short term bank facilities	324.11 (enhanced from 316.26)	**CARE A-; Negative/CARE A2+ (Single A Minus; Outlook: Negative; A Two Plus)**	Revised from CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable; A Two Plus)
Total bank facilities	**567.55 (Rupees Five hundred and sixty seven crore and fifty five lakh 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) continues to derive strength from experienced promoters, long track record of operations in chlor- alkali products with presence of integrated operations and satisfactory operational performance, established relationship with key clients and suppliers, company catering to diversified end user industries coupled with partial synergy from group companies for raw material as well as end-product off-take and operations backed by moderate power supply arrangements through captive power plants. The ratings also factors increasing scale of operations during FY19 (refers to the period April 1 to March 31), moderate profitability margins and improved capital structure. However, the ratings are constrained by proposed debt funded capex for modernization of machinery and capacity expansion of the chloromethane plant, high power intensive nature of operations resulting in high power costs, high working capital utilization, volatility in raw material prices combined with significant decline in realisation of caustic soda, exposure to forex fluctuations and cyclical nature of the industry.

The ability of the company to improve its scale of operations and profitability with subsequent improvement in the liquidity position, ability to derive benefits as envisaged from the recently completed capex, timely completion of proposed capex within envisaged costs are the key rating sensitivities. Further, ability of the company to curtail power costs is also critical from credit risk perspective.

Outlook: Negative

The 'Negative' outlook on the rating reflects the significant decline in the realisation of caustic soda during H1FY20, a major contributor of revenue which is likely to affect the profitability and cash accruals of the company. Further, the proposed debt funded capex for ramping up the new capacities and modernization of the existing plant is expected to moderate the credit risk metrics going forward. The outlook may be revised to 'Stable' if SRAAC absorbs the pricing pressure on caustic soda realisations while demonstrating the healthy profitability margins along with exhibition of strong cash accruals.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

SRAAC promoted by Mr. T G Venkatesh Chairman, who is a commerce graduate and hails from 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.

Integrated operations and satisfactory operational performance

The operations of SRAAC are highly integrated with by-product of one process used as raw material for another process, enabling the company to gain maximum advantage of its large production capacity. This protects the company from the effects of cyclicality in the demand for its major products, as adverse movement in the prices of one set of products is countered by favorable movement in the realisation for other products. The product portfolio of the company is divided into three divisions i.e. Chemical, Oil & fatty acids and chloromethane divisions.

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

The operational performance of the company has been satisfactory during FY19. SRAAC has started modernization of its plant by replacing the old machinery with the new machinery in phased manner, without affecting the business line, which resulted in enhanced capacity. Also, stabilization of operations of the new chloromethane unit coupled with increased demand for the products has resulted in improved capacity utilization (CU) level of of 94% for FY19 (96%- FY18). Further, during H1FY19, the installed capacity of Caustic soda has further increased from 1,60,910 MTs to 2,59,150 MTs per annum in order to meet the increased demand.

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 more than three decades in manufacturing of chemicals since its inception 1981. Over the years, SRAAC 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 group company supplying raw material and end product also being sold to another group company.

Healthy growth in operating income and profitability margins
The scale of operations of the company has shown a healthy growth during FY17- FY19 with a CAGR of 14.91% backed by increase in demand and production as well as realisations. The Total Operating Income (TOI) of the company has grown by 15% from Rs.1054.40 crore in FY18 to Rs.1209.73 crore in FY19, led by increased revenue from chemical division. In line with increase in the operating income, the PBILDT and PAT levels have also improved from Rs.208.10 crore and Rs.29.61 crore in FY18 to Rs. 233.25 crore and Rs. 64.80 crore respectively in FY19. Further, during Q1FY20, the company reported a PBILDT of Rs. 46.25 crore and PAT of Rs. 17.30 crore on a TOI of Rs. 284.57 crore (During Q1FY19, the company reported a PBILDT of Rs. 57.68 crore and PAT of Rs. 7.82 crore on a TOI of Rs. 310.84crore).
The PBILDT margin of the company remained stable at 19.28% in FY19 (19.74% in FY18). The PAT margins of the company improved by 170 bps from 4.77% in FY18 to 6.47% in FY19.

Improved capital structure and debt coverage indicators
The capital structure of the company improved significantly as on March 31, 2019. The debt to equity and overall gearing of the company have improved from 0.60x and 1.09x as on March 31, 2018 to 0.27x and 0.69x as on March 31, 2019 owing to repayment of debt, increase in the equity and accretion of profits to networth.
The interest coverage indicator of the company has improved from 3.58x in FY18 to 4.00x in FY19 on account of high operating profits. The debt coverage indicator; total debt to GCA also improved in FY19 due to decreased debt levels on account of redemption of preference shares and improved profitability.

Stable outlook for caustic soda industry
The production in the domestic chlor-alkali chemical industries is expected to increase by around 3-4% over the next two years, on account of healthy demand growth from end user industries including paper, aluminium, detergents, glass and textiles along with plant closures in Europe and China. In FY19, output of aluminium is expected to remain stable at 3.42 million tonnes (MTs), while the paper industry is expected to report a healthy growth of 6.7% over the next two years ending FY20 to 20.7 (MTs) on account of healthy demand and low waste paper prices following ban on its import in China, a major global producer.
Access to captive raw materials, particularly limestone for manufacturing of soda ash and cheaper sources of power for driving efficiency would be crucial for the individual industry players.

Key Rating Weaknesses
Proposed debt funded capex
The company has been witnessing significant increase in demand for its products under chloromethane division and to cater to the same, it is planning to enhance its capacities for chloromethane plant and undertake modernization works for the caustic soda plant. Project cost for increase in the production capacity of chloromethane plant is estimated to be around Rs.157.25 crore. The company proposes to undertake this capex during FY20 and FY21. Financial closure for the capex has been achieved in March 2019.The manufacturing facility is expected to commence its operations from Q4 2021 onwards. In addition to this, the company does regular capex every year for maintenance and modernization of the plant.
The aforementioned debt funded projects are proposed to be funded by term loans, Letter of credit and internal cash accruals and the same is expected to deteriorate the capital structure of the company marginally going forward.

Exposure of raw material and finished goods price volatility and forex currency fluctuations; however, export volumes provide natural hedge to a certain extent
The primarily raw materials 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. Profitability of caustic 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.

Power intensive industry resulting in high power costs albeit moderate power supply from captive power plants
The caustic soda industry is power intensive industry. Power cost constituted around 40%-45% of cost of sales (FY16-19) and 30-35% of gross sales (FY16-19). Electricity is directly used in manufacture for electrolysis of brine (salt solution - the raw material). In order to manage its power costs, the company started sourcing part power from other sources at lower rates. The average cost of power to the Company during FY19 was at Rs.6.21 per KWH as against Rs.6.02 KWH during the previous year. Going forward, ability of the company to source power at competitive rates for its enhanced capacities and upcoming expansions will be critical from credit risk perspective.

High working capital utilization levels
The operating cycle of the company continues to be negative due to high creditor's period of 75 days in FY19 as against 104 days in FY18 (125 days in FY17). The company uses LC for purchase of raw materials (both domestic as well as imports) and also for import of capital goods such as panels, motors electrolyzers etc. Hence, the company uses non fund based limits as against fund based limits. As the sanctioned fund based WC limits of the company are on the lower side vis-a- vis the turnover of the company, the average working capital utilization appears to be on a higher side. The average working capital utilization of the company is high for the month ended August 2019 stands at 90%. The non-fund based utilization of the company for the last 12 months ended July 2018 is around 85-90%.

Liquidity indicator – Adequate
The company has a satisfactory liquidity position with adequate cash accruals generation. The debt obligation of the company for FY20 amounts to Rs.54.02 crore out of which the company has already repaid an amount of Rs. 17.12 crore till August 31, 2019. Considering the cash accruals generated by the company in past along with envisaged cash accruals FY20, it is expected that it would meet the debt obligations due during the current financial year comfortably. The company has expected capex requirements for modernization of the existing plant and expansion of new capacities and the same is expected to be funded using debt. The average working capital utilization of the company was high for the last 12 months ended August 2019 at about 90%.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
CARE's policy on withdrawal of ratings
Criteria for Short Term Instruments
Rating Methodology - Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company
Incorporated in July 24, 1981, TGV SRAAC Ltd (erstwhile Sree Rayalaseema Alkalies and Allied Chemicals Ltd; 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 etc. The company also manufactures castor oil derivatives, fatty acids & consumer products-majorly toilet soaps, chloromethane products and is also into power generation. The plant is certified by ISO 9001, ISO 14001 and OHSAS 18001 system certification.
SRAAC is mainly present in the Chlor-Alkali industry and has installed capacities of 2,59,150 Tonnes per annum (TPA) for caustic soda; 23,100 TPA for potassium hydroxide, 41,250 TPA for chloromethane, 16,500 TPA for Castro Oil Derivatives, 24,750 TPA for Fatty acids. The company has deployed bipolar membrane cell technology at its manufacturing plant located at Kurnool, which is cost efficient and environment friendly. SRAAC exports castor oil derivatives, potassium hydroxide flakes and chlorine all over the world.
The company operates two 25 MW steam turbines (coal powered) for captive consumption and has 3 captive diesel generators sets of 6.2 MW each (presently used for stand by power). This apart, the company had a furnace oils power plant

of 37.8 MW at Bellary, Karnataka for which the company had Power Purchase Agreement with Karnataka Electricity Board. However, the same expired on August 31, 2012 and the agreement was not renewed. SRAAC has discontinued the operations from this power plant from FY13-14 and is exploring the possibilities for disposal of its plant.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1054.40	1209.73
PBILDT	208.10	233.25
PAT	50.31	78.27
Overall gearing (times)	1.09	0.69
Interest coverage (times)	3.58	4.00

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
Fund-based - LT-Term Loan	-	-	March 2022	197.41	CARE A-; Negative
Fund-based - LT-Working Capital Demand loan	-	-	March 2020	5.52	CARE A-; Negative
Fund-based - LT-Cash Credit	-	-	-	13.56	CARE A-; Negative
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	-	-	-	13.50	CARE A2+
Non-fund-based - LT/ ST-Letter of credit	-	-	-	310.16	CARE A-; Negative / CARE A2+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	13.95	CARE A-; Negative / 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 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.	Fund-based - LT-Term Loan	LT	197.41	CARE A-; Negative	-	1)CARE A-; Stable (13-Nov-18)	-	-
2.	Fund-based - LT-Working Capital Demand loan	LT	5.52	CARE A-; Negative	-	1)CARE A-; Stable (13-Nov-18)	-	-
3.	Fund-based - LT-Cash Credit	LT	13.56	CARE A-; Negative	-	1)CARE A-; Stable (13-Nov-18)	-	-
4.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	12.65	CARE A2+	-	1)CARE A2+ (13-Nov-18)	-	-
5.	Fund-based - ST-FBN / FBP	ST	0.80	CARE A2+	-	1)CARE A2+ (13-Nov-18)	-	-
6.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	13.50	CARE A2+	-	1)CARE A2+ (13-Nov-18)	-	-
7.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	310.16	CARE A-; Negative / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (13-Nov-18)	-	-
8.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	13.95	CARE A-; Negative / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (13-Nov-18)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities - NA

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.*

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