TGV SRAAC Limited

November 13, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating action
Long term bank facilities	273.34	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	Assigned
Short term bank facilities	26.95	**CARE A2+ (A Two Plus)**	Assigned
Long term/Short term bank facilities	316.26	**CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable; A Two Plus)**	Assigned
Total bank facilities	**616.55 (Rupees Six hundred and sixteen crore and fifty five lakh only)**		

Detailed rationale & Key rating drivers

The ratings assigned to the bank facilities of TGV SRAAC Limited (SRAAC) takes into account 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 FY16-FY18 (refers to the period April 1 to March 31), moderate profitability margins coupled with improvement during FY18 and H1FY19 (refers to the period Apr 1 to Sep 30) and moderate 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 and finished goods prices, 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.

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 realization for other products. The product portfolio of the company is divided into three divisions i.e. Chemical, Oil & fatty acids and chloromethane divisions.

The operational performance of the company has been satisfactory during FY16-18 with improvement in FY18. 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 CU level of 96% for FY18 (70%- FY17). 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.

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

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 been increasing during FY16-18 at a healthy CAGR of 13.28% backed by increase in demand and production as well as realisations. The Total Operating Income (TOI) of the company has grew by 15% from Rs.916.18 crore in FY17 to Rs.1054.40 crore in FY18, led by increased revenue from chemical and chloromethane division.
The PBILDT margin of the company has improved by 381 bps from 15.93% in FY17 to 19.74% in FY18 primarily on account of increased share of revenue from higher margin chemical division, increase in the average sales realization of caustic soda, as well as change in the product mix during the year. Simultaneously, the PAT margin of the company has also improved by 238 bps from 2.39x in FY17 to 4.77x in FY18.
Further, during H1FY19, the company's TOI has increased to Rs. 603.03 crore as against Rs.500.23 in H1FY18 due to increased demand for chemical division and chloromethane division. The PBILDT margin of the company improved during H1FY19 to 19.83% from 18.11% in H1FY18 primarily on account of increase in the revenue share from chemical and chloromethane plant. The PAT margin has remained stable at 5.78% in FY18 as against 5.72% in FY17.

Improved capital structure and debt coverage indicators; however the same remains moderate
The capital structure of the company was moderate for last three account closing dates (i.e. March 31, 2016, 2017 and 2018). The debt to equity and overall gearing of the company have improved from 0.71x and 1.49x as on March 31, 2017 to 0.60x and 1.25x as on March 31, 2018 owing to repayment of debt and accretion of profits to networth. During FY18, the company has infused equity to an extent of Rs.4.59 crore by exercising share warrants to support the operations. The debt coverage indicators during FY18 improved and are comfortable.

Stable outlook for caustic soda industry:
Caustic Soda market in India is projected a CAGR of 7.60% during 2016 to 2025. India accounts for 3.50% share in Global Caustic Soda market. Both Global and domestic prices have risen by around 35% during 2018 following healthy demand growth and lower imports due to Plant closures in Europe and China. The European Union decision to discontinue mercury process plants which control nearly 26% of Europe capacity beyond 2017. China, the largest player globally is running at reduced capacity following poor Chlorine realization and stricter environmental norms.
The Global Chloromethane is expected to witness a significant growth of ~2171.6 million by 2022 with CAGR of ~4.63% between 2016 to 2022. Global chloromethane witnessed significant growth on account of increasing demand as a chemical intermediate.

Key rating weakness:
Proposed debt funded capex
In order to meet the demand for products under chloromethane division, the company is planning to increase the production capacity in a phased manner with a project cost of around Rs.150 crore during FY19-21. Currently, the project is in initial stages. In addition to this, the company is modernizing its plant with new machinery and projected a capex of Rs.210 crore during FY19-21. 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 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 24% of the cost of production. Majority of them are imported. The key raw materials are price sensitive and highly volatile. Thus, SRAAC profitability is susceptible to volatility in prices of raw materials. Also, lag between change in the raw material price and reset of finished good price impacts the profitability of the company. Also, lag between change in the raw material price and reset of finished good price impacts the profitability of the company. However, the government has introduced anti-dumping duty on caustic soda imports and the same will protect the margins to an extent over the medium term.

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 (FY16-18) and 30-35% of gross sales (FY16-18). Electricity is directly used in manufacture for electrolysis of brine (salt solution - the

raw material). The power requirement at peak level was at 60 MW for FY18. In order to curtail its power costs, the company sources power from its captive plants as well as exchange at competitive rates. The company has sourced around 21% from captive plants and around 30% from exchanges and the rest from power distribution companies. 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 is negative for both FY17 and FY18 due to high creditor's period of 117 days in FY18 as against 125 days in FY17. This is primarily as the company uses letter of credit for raw materials. The average working capital utilization of the company is high for the month ended July 2018 stands at 89%. The non-fund based utilization of the company for the last 12 months ended July 2018 is around 85-90%.

C. Analytical approach: Standalone
D. Applicable Criteria:
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: manufacturing Company
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 into chemicals manufacturing like caustic soda, caustic potash, sodium hypochlorite, chlorine, hydrochloric acid, hydrogen gas etc.; and other divisions like castor oil derivatives, fatty acids & consumer products-majorly toilet soaps, chloromethane products and 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. SRRAC exports castor oil derivatives, potassium hydroxide flakes and chlorine all over the world.
The company operates two 25 MW of 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 has 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.

Standalone:

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total Operating income	916.18	1054.40
PBILDT	145.92	208.10
PAT	16.58	29.61
Overall gearing (times)	1.49	1.25
Interest Coverage (times)	3.58	3.58

A- Audited

Status of non-cooperation with previous CRA: NA
Any other information: NA
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.*

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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
Fund-based - LT-Term Loan	-	-	Mar 2022	254.26	CARE A-; Stable
Fund-based - LT-Working Capital Demand loan	-	-	Mar 2020	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	-	-	-	13.50	CARE A2+
Non-fund-based - LT/ ST-Letter of credit	-	-	-	302.31	CARE A-; Stable / CARE A2+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	13.95	CARE A-; Stable / CARE A2+
Commercial Paper	-	-	-	10.00	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 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.	Fund-based - LT-Term Loan	LT	254.26	CARE A-; Stable	-	-	-	-
2.	Fund-based - LT-Working Capital Demand loan	LT	5.52	CARE A-; Stable	-	-	-	-
3.	Fund-based - LT-Cash Credit	LT	13.56	CARE A-; Stable	-	-	-	-
4.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	12.65	CARE A2+	-	-	-	-
5.	Fund-based - ST-FBN / FBP	ST	0.80	CARE A2+	-	-	-	-
6.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	13.50	CARE A2+	-	-	-	-
7.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	302.31	CARE A-; Stable / CARE A2+	-	-	-	-
8.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	13.95	CARE A-; Stable / CARE A2+	-	-	-	-

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