

Tamilnadu Petroproducts Limited

August 22, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	59.45 (reduced from 63.95)	CARE BBB; Stable [Triple B; Outlook: Stable]	Revised from CARE BBB-; Stable [Triple B Minus; Outlook: Stable]
Long/Short-term Bank Facilities	53.52 (reduced from 59.83)	CARE BBB; Stable/ CARE A3 (Triple B; Outlook: Stable/ A Three)	Revised from CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable)
Total Facilities	112.97 (Rupees One Hundred Twelve crore and Ninety Seven lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long-term rating assigned to the bank facilities of Tamilnadu Petroproducts Ltd (TPL) takes into account the improvement in the operational and financial performance of TPL during FY17 (refers to the period April 01 to March 31).

The ratings continue to factor in the long track record of operations of TPL, its market position as an established player in the domestic Linear Alkyl Benzene (LAB) market and comfortable capital structure. The ratings also factor in the cost and operational benefits derived from in-house production of a key raw material, ie, n-Paraffin.

The ratings continue to be constrained by volatile and cyclical nature of its business segments and highly competitive nature of the domestic LAB market.

Going forward, sustained improvement in operational and financial performance of the company will be the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Improved operational performance in FY17 after witnessing volatile business performance in the past: TPL has limited control over raw material and finished product prices as they are market linked and hence leading to volatility in revenue and profitability margins in the past. Income from LAB sales increased significantly by 30% driven by 5% y-o-y increase in the sales realization in FY17 and 24% y-o-y increase in sales volume of LAB with highest capacity utilization of 81% in FY17 as compared with FY16. Since FY16, TPL has been entering into agreement with leading FMCG players such as Proctor & Gamble, Unilever, Jyothy Laboratories etc, who are major customers for firm off-take of 60% of the production. The remaining 40% of the production is sold through spot markets to the local/regional players. The firm offtake arrangement has resulted in improved capacity utilization and lean inventory management thereby helping TPL to insulate from the fluctuations of crude prices to some extent. Crude prices have also remained stable exhibiting lower volatility for the past 2 years.

Improved financial performance in FY17: TPL has reported profit in FY17 after continuing losses during the years FY13-FY16. The losses during the period were funded out of sale proceeds (Rs.80 crore) towards monetization of non-core asset. During FY17, better inventory management as a result of firm off-take agreement with leading FMCG players in LAB division and reduction of losses in HCD division has resulted in improved performance in current year. With improved capacity utilisation and higher sales volume of LAB, income of TPL witnessed y-o-y growth of 24% in FY17. During FY17, TPL reported PBILDT of Rs.70 crore as against PBILDT of Rs.13 core in FY16. However, the company registered net profit of Rs.10 crore, mainly on account of provision against long pending income tax liability. In respect of Assessment year 2001-02, Income Tax Appellate Tribunal (ITAT) has allowed the appeal filed by the tax department upholding the validity of reopening of the assessment and has directed the Commissioner of Income Tax (Appeals) to decide the matter on merits. The company has filed further appeal in the Hon'ble High Court of Madras challenging the order of the ITAT. Though there is no demand and the matter is in court, the company on prudent basis has provided for tax along with interest amounting to Rs.50 crore in FY17.

During FY17, the company received also insurance claims of Rs.25 crore for unprecedented rainfall in December 2015 and January 2016, which lead to flooding and power interruptions and the plants were shut down for nearly 2 months.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Low gearing levels: Overall gearing remained low at 0.19x as on March 31, 2017, as against 0.26x as on March 31, 2016, due to decrease in term debt and working capital borrowings. With better inventory management leading to lower inventory holding period and improvement in receivable days, the operating cycle has improved in last two years. Working capital borrowings of the company stood at Rs.39 crore as on March 31, 2017, as against Rs.57 crore as on March 31, 2016. The company has only Interest-free sales tax (IFST) loans and it stood at Rs.5.27 crore as on March 31, 2017, against Rs.9.87 crore as on March 31, 2016. Total debt to gross cash accruals has improved from 3.88 years as on March 31, 2016 to 0.63 years as on March 31, 2017.

Established track record of operations and established market position: LAB is the major contributor to sales and profits of TPL. It continues to account for a major portion of TPL's total sales with around 90% share in FY17. TPL has been in operations for more than three decades and is one of the leading manufacturers of LAB in the domestic market which consists of very few players. Despite being the leading Indian manufacturer of LAB, continuous import of the product into the country make them less competitive in the domestic market.

Key Rating Weaknesses

Exposure to associate/subsidiary companies by way of investments: The book value of investments (net of diminution) in subsidiary and associate companies stood at Rs.77 crore as on March 31, 2017 (29% of networth) as against Rs.77 crore (36% of networth) as on March 31, 2016. These investments were made more than a decade ago for some projects in South East Asia which has not materialised and is unlikely to yield positive returns in the medium term. Adjusting for the exposure in subsidiaries from the networth, overall gearing stands at 0.30x as on March 31, 2017.

Highly competitive industry and threat from imports: With the improved consumption pattern of detergents and non-availability of substitute for the product, the demand for LAB continue to trend upwards. At the same time, continuation of imports into the country may be a constraint for the domestic LAB manufacturers cutting into their profitability. However in April 2017, Indian Government has issued notification to protect domestic LAB market and implemented antidumping duty on LAB exporting countries Viz. Iran, Qatar and China.

Capacity utilization rate of caustic soda manufacturers will be under pressure on account of substantial capacity addition planned by international players. The increasing imports from international players, who have access to power at lower rates, continue to be a threat. The availability of power at competitive rates will be critical for the prospects of the domestic caustic industry.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Rating Methodology-Manufacturing Companies](#)
[Financial ratios \(Non-Financial Sector\)](#)
[CARE's methodology for Short-term Instruments](#)
[Factoring Linkages in Ratings](#)

About the Company

TPL belongs to the SPIC group of companies headquartered at Chennai. TPL was set up as a joint venture between SPIC Ltd and Tamilnadu Industrial Development Corporation (TIDCO). TPL has three divisions, namely, LAB, ECH and HCD. The LAB division is engaged in the manufacture of Linear Alkyl Benzene (LAB), a key input for manufacture of detergents. The ECH division manufactures Epichloro Hydrin (ECH), an organic chemical used to manufacture epoxy resins and pharma intermediates. However, TPL has discontinued production of ECH since April 2013. Heavy Chemicals Division (HCD) manufactures caustic soda and chlorine. Caustic soda finds application in industries like pulp & paper, textiles, detergents, soaps, etc.

The chlorine from HCD was earlier used in the manufacture of ECH. After discontinuation of operations in ECH division, TPL is selling Chlorine to its group company and in open market.

As on March 31, 2017, the company has an installed capacity of 120,000 MTPA (Metric Tonne Per Annum) of LAB, 56,100 MTPA of caustic soda and 40,000 MTPA of chlorine (by-product of caustic soda). The production facilities of TPL are located in Manali, an industrial suburb of Chennai. For FY17, LAB constituted 90% of gross sales while HCD division contributed nearly 10%.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	703	891
PBILDT	13	70
PAT	38	10
Overall gearing (times)	0.26	0.19
Interest coverage (times)	0.90	8.15

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

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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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 - LT/ ST-BG/LC	-	-	-	53.52	CARE BBB; Stable / CARE A3
Fund-based - LT-Cash Credit	-	-	-	59.45	CARE BBB; 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (30-Dec-15)	1)CARE BBB (22-Oct-14)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	53.52	CARE BBB; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (22-Dec-16)	1)CARE BBB- / CARE A3 (30-Dec-15)	1)CARE BBB / CARE A3 (22-Oct-14)
3.	Fund-based - LT-Cash Credit	LT	59.45	CARE BBB; Stable	-	1)CARE BBB-; Stable (22-Dec-16)	1)CARE BBB- (30-Dec-15)	1)CARE BBB (22-Oct-14)

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