Tamilnadu Petroproducts Limited

August 24, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	60.00 (enhanced from 59.45)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE BBB; Stable (Triple B; Outlook: Stable)**
Long/ Short-term Bank Facilities	63.00 (enhanced from 53.52)	**CARE BBB+; Stable/ CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)**	**Revised from CARE BBB; Stable/ CARE A3 (Triple B; Outlook: Stable/ A Three)**
Total Facilities	**123.00 (Rupees One Hundred Twenty Three crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Tamilnadu Petroproducts Ltd (TPL) takes into account the significant improvement in the operational and financial performance during FY18 (refers to the period April 01 to March 31) marked by growth in total operating income, improvement in profitability and cash accruals.

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, i.e., 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, ability the company to complete the ongoing projects in a timely manner and sustained improvement in operational and financial performance will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

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 major portion of TPL's net sales with 86% share in FY18 while HCD (mainly Caustic Soda) division contributed nearly 11%. 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.

Benefits derived from in-house production of key raw materials

One of the major raw materials for the manufacture of LAB is N-Paraffin (NP). TPL has in-house production facility to manufacture NP which provides cost competitiveness against imported NP. During FY18 around 82% of the N-Paraffin requirement was catered internally. TPL is in the process of revamping the NP production capacity from 65,000 MT p.a to 90,000 MT p.a at a total project cost of Rs.62 crore being funded through internal accruals spread across FY19 and FY20. Increase of N-Paraffin in-house production would lead to cutting down the NP imports.

Major by-product in the production of caustic soda (HCD division) is Chlorine. Disposal of chlorine is major challenge faced by Caustic Soda units. Till FY13, the ECH division provided ready off take for chlorine, an input for ECH product. Subsequent to the suspension of production, TPL sells Chlorine to its group company and in the open market. Furthermore, initiatives taken to convert existing facilities of ECH to manufacture Propylene Oxide (PO) is under progress with project cost of Rs.44 crore funded through internal accruals.

Improvement in operational and financial performance in FY18

During FY18, net sales from LAB increased by 12% primarily aided by increase in realization by 10%. The net sales from Caustic Soda increased by 83% aided by increase in sales volume by 48% and increase in realization by 24% on y-o-y basis. Contribution of LAB in total net sales stood at 86% in FY18. Since past two years, TPL has been entering into agreement with leading FMCG players such as P&G, Unilever, Jyothy Laboratories etc., who are major customers for firm off-take of 60% of the LAB production. The remaining 40% of the production is sold through spot markets to the local/regional players. The firm offtake has resulted in improved capacity utilisation in FY17 at 81% and FY18 at 86%.

With higher sales volumes and realization in FY18 the TOI of TPL witnessed y-o-y growth of 18% and the PBILDT margin

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

improved to 10.44% in FY18 from 7.86% in FY17. Furthermore HCD division returned to profits in FY18 as against loss in earlier two fiscals.
The HCD division (caustic soda) witnessed turnaround in FY18 on account of improvement in sales volume and realization supported by higher demand. Various process improvements measures taken also resulted in reduced power requirement for per ton of caustic soda production apart from reduction in tariff from third party power producers. TPL registered PAT of Rs.47 crore and GCA of Rs.106 crore on TOI of Rs.1,056 crore in FY18 as against PAT of Rs.9 crore and GCA of Rs.83 crore on TOI of Rs.891 crore in FY17.

Low gearing level
Overall gearing remained low at 0.13x as on March 31, 2018 as against 0.18x as on March 31, 2017. As on March 31, 2018 the company does not have any long term debt outstanding. Working capital borrowings constituted the total debt as on March 31, 2018. With improved PBILDT margin in FY18, the interest coverage improved to 18.56x in FY18 from 8.12x in FY17. Total debt to GCA also improved to 0.40x in FY18 from 0.63x as on March 31, 2017.

Key Rating Weaknesses
Exposure to associate/subsidiary companies by way of investments
The total investments in subsidiary and associate company by TPL stood at Rs.96 crore as on March 31, 2018 which translates to 29% (PY: 33%) of networth as on March 31, 2018. These investments are unlikely to yield positive returns in the medium term. Adjusting for the exposure in subsidiaries from the networth, overall gearing stands at 0.18 x as on March 31, 2018.

Highly competitive industry and threat from imports
With improved consumption pattern of detergents and availability of no major 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 and cut into their profitability. TPL, being a major player in LAB market would retain its customer base due to established relations. However implementation of antidumping duty on LAB exporting countries will aid the domestic manufacturers. Capacity utilization of domestic caustic soda manufacturers is expected to improve as the imports are expected to get diverted into other caustic soda producing countries as they are in the process of upgrading their technology resulting in shutting down of many old plants and curtailed supplies in those countries. This has also resulted in increase in prices. The trend is expected to continue till new plants come-up. Since the production of Caustic Soda is power intensive, availability of power at competitive rates will be critical for the prospects of caustic Soda industry.

Analytical approach: Standalone
Applicable Criteria
Rating Methodology-Manufacturing Companies
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios (Non-Financial Sector)
CARE's methodology for Short-term Instruments

About the Company
Tamilnadu Petroproducts Limited (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.
As on March 31, 2018, the company has an installed capacity of 120,000 MTPA (Metric Tonnes Per Annum) of LAB, 56,100 MTPA of caustic soda, and 40,000 MTPA of chlorine (by-product of caustic soda).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	891	1,056
PBILDT	70	110
PAT	9	47
Overall gearing (times)	0.18	0.13
Interest coverage (times)	8.12	18.56

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

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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	-	-	-	63.00	CARE BBB+; Stable / CARE A3+
Fund-based - LT-Cash Credit	-	-	-	60.00	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 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	-	-	-	-	-	1)Withdrawn (30-Dec-15)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	63.00	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3 (22-Aug-17)	1)CARE BBB-; Stable / CARE A3 (22-Dec-16)	1)CARE BBB- / CARE A3 (30-Dec-15)
3.	Fund-based - LT-Cash Credit	LT	60.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (22-Aug-17)	1)CARE BBB-; Stable (22-Dec-16)	1)CARE BBB- (30-Dec-15)

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