# Tamilnadu Petroproducts Limited

August 25, 2020

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term Bank | 56 | CARE A-; Stable (Single A Minus; Outlook: Stable) | Assigned |
| Long/Short-term Bank Facilities | 63 | CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus) | Assigned |
| Total Bank Facilities | 119 (Rs. One hundred nineteen crore only) | | |

*Details of facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of Tamilnadu Petroproducts Limited (TPL) take into account the long track record of operations of the company and its established market position in the domestic Linear Alkyl Benzene (LAB) market with firm off-take tie-ups with major FMCG companies. The ratings also factor in the benefits derived from the integrated nature of its operations, the company's comfortable capital structure and liquidity profile.

The ratings are, however, constrained by the significant dependence on a single product and end-user industry, commoditized nature of the business with limited pricing flexibilities, competitive nature of the industry, threat from imports and the company's exposure to subsidiaries.

Rating Sensitivities

*Positive Factors*

- Increase in scale of operations beyond Rs.1,500 crores with a reduction in the product concentration
- Sustained Improvement in profitability margins marked by PBILDT margins improving beyond 12%
- Reduction in group exposure

*Negative Factors*

- Any large substantial debt-funded capital expenditure leading to deterioration in capital structure.
- Any adverse outcome from the disputed charge under group captive scheme

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Long track record of operations:*** TPL is a part of the Southern Petrochemical Industries Ltd (SPIC) group which has nearly five decades of operational track record in the petrochemicals and allied industries. TPL has been in operations for more than three decades and has three major divisions namely LAB, Heavy Chemical Division (HCD) and Propylene Oxide (PO), with LAB contributing 82% of the total revenue in FY20 (refers to the period April 1 to March 31), while HCD and PO contribute 11% & 7%, respectively.

***Established market position in the domestic LAB market:*** TPL is one of the leading manufacturers of LAB in the domestic market, with majority of their revenue backed by firm off-take agreements in place with major FMCG players like HUL, Jyothy Laboratories etc. TPL also has established long-standing relationship with its clientele for the HCD division.

***Integrated nature of operations:*** On the LAB business, one of the major raw materials required for manufacturing LAB is N-Paraffin (NP). TPL has an in-house facility to manufacture NP, which was revamped in FY20 to increase the production capacity from 65,000 MT p.a to 90,000 MT p.a. This provides cost competitiveness against imported NP. LAB plant is operating at a consistently high utilisation of 80%-85% in the last three years. In FY19, the company has converted the defunct ECH facility to manufacture Propylene Oxide (PO) through the Hydrochlorination process, thereby providing firm off-take for chlorine (a major by-product of Caustic Soda) and consequently increasing capacity utilisation of Caustic Soda plant from 42% in FY17 to 76% in FY20.

***Comfortable capital structure:*** With healthy cash accruals aiding consistent increase in net worth base over the years, TPL continued to have low debt with no long-term debt as on March 31, 2020. The overall gearing remained comfortable at 0.09x as on March 31, 2020, as against 0.10x as on March 31, 2019. Going forward, the company's incremental capital expenditure

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

requirements over the next couple of years are likely to be funded only by the internal accruals and no additional debt is envisaged. The company has about Rs.85 crores as cash on its books and Rs.127 crores as cash on its subsidiary books which may be used to meet capex requirements. Any higher-than-expected debt-funded capital expenditure would remain a key rating sensitivity.

**Key Rating Weaknesses**

***High dependence on a single product:*** The Company's main product is LAB, a crude derivative. While the company has presence in the HCD division and has recently commenced operations of its PO division, the dependence on LAB remains high at 82% of the total income. The company's revenue has remained stable over the years with a revenue of Rs. 1,233.10 Crores during FY20. During Q1FY21, the company booked revenue of Rs. 219.98 crore as against Rs. 259.84 crore in Q4FY20 and Rs. 342.11 crore in Q1FY20.

***Limited pricing flexibility due to commoditized nature of products:*** The Company operates in a highly commoditized industry with limited product differentiation. LAB realization in the domestic market is impacted by competition from both domestic and global suppliers restricting pricing power of standalone players. The HCD division is also a cyclical business, with prices exhibiting high level of volatility. Realisations of caustic soda in the industry have been on a declining trend in the last couple of quarters with lower demand scenario. Notwithstanding the inventory management policies, firm-off take agreements at prices linked to the prices of major raw materials and integration benefits, the company's operating margins remain vulnerable to adverse movement in input costs. The company's PBILDT margins have dropped from 9.48% in FY18 to 7.61 % in FY 20. However, in Q1FY21 the PBILDT margins witnessed sharp improvement with the company reporting a PBILDT of Rs.23.90 crores on an income of Rs.220 crores translating to a margin of 10.86%. The company reported a PAT of Rs.12.41 crores for Q1FY21.

***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 continues to trend upwards. However, increase in imports affect the domestic LAB manufacturers and cut into their profitability. The Government of India has implemented antidumping duty on LAB exporting countries to aid the domestic manufacturers. However, additional capacity being created in the Middle East, imports from where are not covered under the present antidumping norms.

***Exposure to subsidiaries:*** The total investment in subsidiary companies by TPL stood at Rs. 96.45 Crore as on March 31, 2020. This translated to 22% of the net worth of TPL. These companies were incorporated more than a decade ago for some projects in South East Asia. These subsidiaries do not have any major assets or operations. Adjusting for the exposure in subsidiaries from the net worth, overall gearing stands at 0.11x as on March 31, 2020.

***Claims against the company and other contingencies:*** The company had received a claim from TNEB for Rs.61.3 crores for non-compliance of the covenants under the group captive scheme. Such non-compliance was for a limited period in 2015-16 due to disrupted operations during December 2015 floods. A writ petition has been filed by the private power producers before the High Court of Madras, challenging levy of cross subsidy and obtained stay on the demand
During Q1FY21 (June 12, 2020), the period of lease relating to the leasehold land on which one of the manufacturing units of the company (ECH-PO) is operating has expired. Request for renewal has been filed by the Company with Government of Tamil Nadu, which is under process.

***COVID impact and prospects:*** Notwithstanding the marginal decline in top line in FY20 and Q1FY21 and operating margins in FY20, the additional capacity commissioned for N-Paraffin manufacturing is expected to improve margins for the LAB division. With the COVID breakout creating increased awareness on disinfecting surfaces, both domestic and industrial, demand for surfactants and detergents are expected to increase. Increased volumes and better margins augur well for this segment. However, with the COVID lockdown and end user industries remaining shutdown, the off-take as well as realisation for caustic soda are expected to remain subdued during the current year.

***Liquidity - Strong***

TPL makes payments to major suppliers within 2 weeks, as observed in the reduction in average creditors' period from around 38 days in FY17 to around 19 days in FY20. The average working capital utilization for the last 12 months is modest at around 63%. The company enjoys a comfortable cash position as on March 31, 2020 with cash and bank balance amounting to Rs. 85 crores.

**Analytical approach:** Standalone

**Applicable Criteria**
Rating Methodology-Manufacturing Companies
Rating Methodology - Short Term Instruments
CARE's Policy on Default Recognition
Financial ratios (Non-Financial Sector)
CARE's Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
Liquidity Analysis of Non-financial sector entities

**About the Company**
Tamilnadu Petrochemicals Limited (TPL), headquartered in Chennai, is a part of SPIC group of companies. TPL was set up in 1984, as a joint venture between SPIC Ltd and Tamil Nadu Industrial Development Corporation (TIDCO). The company has three divisions namely LAB, HCD and PO. The LAB division is engaged in the manufacture of Linear Alkyl Benzene (LAB) which is a key input for manufacture of detergents. Heavy Chemicals Division is engaged in the manufacture of Caustic Soda and Chlorine (by-product of Caustic Soda). In FY19, TPL started manufacturing Propylene Oxide (PO). As of March 2020, the company has installed capacity 1,20,000 MTPA (Metric Tonne Per Annum) of LAB, 56,100 MTPA of Caustic soda and 15,000 MTPA of Propylene Oxide. The production facilities of TPL are located in Manali, an industrial suburb of Chennai.

| **Brief Financials (Rs. crore)** | **FY19 (A)** | **FY20 (A)** |
|---|---:|---:|
| Total operating income | 1,252.21 | 1,233.10 |
| PBILDT | 99.03 | 101.36 |
| PAT | 54.28 | 55.08 |
| Overall gearing (times) | 0.10 | 0.09 |
| Interest coverage (times) | 14.46 | 10.79 |

*A: Audited*

**Status of non-cooperation with previous CRA:** N/A

**Any other information:** N/A

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

**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-Cash Credit | - | - | - | 56.00 | CARE A-; Stable |
| Non-fund-based - LT/ ST-BG/LC | - | - | - | 63.00 | CARE A-; Stable / 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 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Non-fund-based - LT/ ST-BG/LC | LT/ST | - | - | - | 1)CARE BBB+; Stable / CARE A3+ (11-Sep-19)<br>2)Withdrawn (11-Sep-19) | 1)CARE BBB+; Stable / CARE A3+ (24-Aug-18) | 1)CARE BBB; Stable / CARE A3 (22-Aug-17) |
| 2. | Fund-based - LT-Cash Credit | LT | - | - | - | 1)Withdrawn (11-Sep-19)<br>2)CARE BBB+; Stable (11-Sep-19) | 1)CARE BBB+; Stable (24-Aug-18) | 1)CARE BBB; Stable (22-Aug-17) |
| 3. | Fund-based - LT-Cash Credit | LT | - | - | - | - | - | - |
| 4. | Fund-based - LT-Cash Credit | LT | 56.00 | CARE A-; Stable | - | - | - | - |
| 5. | Non-fund-based - LT/ ST-BG/LC | LT/ST | 63.00 | CARE A-; Stable / CARE A2+ | - | - | - | - |

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – N/A**

**Annexure 4: Complexity level of various instruments rated for this company/firm**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1. | Fund-based - LT-Cash Credit | Simple |
| 2. | Non-fund-based - LT/ ST-BG/LC | Simple |

***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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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**About CARE Ratings:**
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