

March 05, 2024

## The Travancore Cochin Chemicals Limited: Ratings reaffirmed; rated amount enhanced, outlook revised to Negative from Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based limits/Cash credit	30.0	30.0	[ICRA]BB+; reaffirmed; outlook revised to Negative from Stable
Short-term non-fund based facilities	15.0	15.0	[ICRA]A4+; reaffirmed
Long-term & short-term fund-based & non-fund based limits	0.0	25.0	[ICRA]BB+(Negative)/[ICRA]A4+; assigned
<b>Total</b>	<b>45.0</b>	<b>70.0</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The revision in the outlook to Negative reflects the expected moderation in the credit profile of The Travancore Cochin Chemicals Limited (TCCL) with the decline in realisations of caustic soda. TCCL's profitability witnessed significant decline in 9M FY2024 and is expected to remain subdued in the near term.

The ratings continue to factor in TCCL's established track record in the chloro-alkali business, its position as one of the largest manufacturers of caustic soda in Kerala with a reputed clientele and its status as a state-level public sector undertaking. Further, the ratings derive comfort from the comfortable capital structure and healthy coverage indicators.

The ratings are constrained by the susceptibility of TCCL's profitability to the volatility in caustic soda prices owing to the commoditised nature of the product, the cyclical nature associated with the chloro-alkali industry and the power tariff revisions in the absence of a captive power plant. Further, the profitability remains under pressure due to the high employee cost. The ratings are also constrained by the company's moderate scale of operations vis-à-vis other major industry players.

### Key rating drivers and their description

#### Credit strengths

**Established track record in chloro-alkali business** – TCCL, incorporated in 1949, is one of the largest manufacturers of caustic soda in Kerala and has established healthy relations with its customers and suppliers. The sale of caustic soda contributed to a major portion (75-85%) of the revenues, followed by hydrochloric acid and chlorine.

**Robust capital structure** – The company repaid all the term debt obligations in FY2023 owing to the improved cash accruals due to the higher realisation of caustic soda, TCCL's main source of revenue. The capital structure remains healthy with a gearing of 0.03 times as on December 31, 2023.

#### Credit challenges

**Decline in revenues and margins in 9M FY2024 with lower caustic soda realisations and high fixed costs** – Caustic soda realisations declined in 9M FY2024, resulting in a revenue drop to Rs. 208.7 crore and operating losses against healthy revenues and margins in FY2023. The market for TCCL is limited with the major clients being dealers and other PSUs. TCCL is

predominantly present in Kerala and has only one plant at Udyogamandal, Kochi, with a capacity of 250 MTPD and no major capex planned in the near term.

Power costs are high across the sector with caustic soda production being a power-intensive process. However, the employee costs are high in TCCL vis-à-vis the other industry players, impacting the cost structure. Power costs have been in the range of 35-50% of the OI, while employee costs accounted for 19-40% of the OI for TCCL over the last five years. The company is taking necessary steps to reduce the fixed costs, though their effect remains to be seen.

**Vulnerability of profitability to fluctuations in caustic soda and chlorine prices and power cost** – Caustic soda realisations have been volatile in the past and had surged from September 2021 to January 2022. After remaining at high levels till January 2023, there has been a steep decline in realisations till date. The volatility in end-product realisation has had an adverse impact on TCCL due to the high fixed component of the expenses, marked by high employee costs of TCCL as the company is a public sector undertaking (PSU).

### Liquidity position: Adequate

The liquidity is expected to remain adequate with the availability of undrawn fund-based working capital limit (nil average utilisation during the 12-month period ended Dec 2023) and only modest maintenance capex planned in the following fiscals. Further, the company does not have any repayment obligations.

### Rating sensitivities

**Positive factors** – Given the negative outlook on the ratings, an upgrade in the near term is unlikely. The outlook could be revised to Stable if the company is able to improve its profitability while maintaining the liquidity position.

**Negative factors** – Pressure on TCCL's ratings could arise if the realisations decline, impacting its revenues, profitability metrics and liquidity position. A specific credit metric for downgrade would be TOL/TNW of more than 2.2 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology Chemicals</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of TCCL

### About the company

TCCL is a state-level public sector undertaking owned by the Government of Kerala (GoKl) and its entities, situated at Udyogamandal, Cochin. It was originally started as Travancore & Mettur Chemical Co. (TMCC) in 1949 as a partnership between Fertilisers and Chemicals Travancore Limited (FACT) and Mettur Chemical and Industrial Corporation Limited by the Seshasayee brothers with a caustic soda production capacity of 20 tonnes per annum (TPA). In 1960, the Government of Travancore Cochin acquired TMCC and it was renamed The Travancore Cochin Chemicals Limited. TCCL manufactures basic industrial chemicals viz., caustic soda and chlorine products. The current licensed capacity of TCCL is 250 TPD of caustic soda, i.e., 82,500 TPA using membrane cell technology.

## Key financial indicators

TCCL Standalone	FY2022	FY2023	9MFY2024*
Operating income	276.8	372.6	208.7
PAT	25.45	67.91	-14.19
OPBDIT/OI	15.2%	24.1%	-4.1%
PAT/OI	9.2%	18.2%	-6.8%
Total outside liabilities/Tangible net worth (times)	1.07	0.47	0.47
Total debt/OPBDIT (times)	0.7	-	-
Interest coverage (times)	12.8	64.8	-23.6

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

## Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021	
				Mar 05, 2024	Feb 03, 2023	June 16, 2022	Feb 01, 2022	Apr 07, 2021	-	
1	Cash credit	Long-term	30.0	-	[ICRA]BB+ (Negative)	[ICRA]BB+(Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Negative)	-
2	Non-fund based limits	Short term	15.0	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	-
3	Unallocated limits	Long term / Short term	0.0	-	-	-	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+(Negative)/ [ICRA]A4+	-
4	Term loan	Long Term	0.0	-	-	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-
5	Fund-based & non-fund based	Long term / Short term	25.00	-	[ICRA]BB+ (Negative)/ [ICRA]A4+	-	-	-	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Short-term – Non-fund based facilities	Very Simple
Long-term/short-term fund-based & non-fund based	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	30.0	[ICRA]BB+(Negative)
NA	Non fund-based limits	NA	NA	NA	15.0	[ICRA]A4+
NA	Fund-based & non-fund based limits	NA	NA	NA	25.0	[ICRA]BB+(Negative)/[ICRA]A4+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis – Not Applicable**

## ANALYST CONTACTS

**Girishkumar Kadam**

+91 22 6114 3441

[girishkumar@icraindia.com](mailto:girishkumar@icraindia.com)

**Prashant Vasisht**

+91 124 4545322

[Prashant.vasisht@icraindia.com](mailto:Prashant.vasisht@icraindia.com)

**Kushal Kumar B**

+91 40 6939 6408

[kushal.kumar@icraindia.com](mailto:kushal.kumar@icraindia.com)

**Arvind Srinivasan**

+91 44 4596 4323

[arvind.srinivasan@icraindia.com](mailto:arvind.srinivasan@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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