May 24, 2024

Thirumalai Chemicals Limited: Long-term rating reaffirmed; short-term rating downgraded to [ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	200.00	50.00	[ICRA]A+(Negative) reaffirmed
Long-term – Fund-based working capital	864.00	976.00	[ICRA]A+(Negative) reaffirmed
Short-term – Non-fund based facilities (sublimit)	(854.00)	(966.00)	[ICRA]A1; downgraded from [ICRA]A1+
Unallocated limits	0.00	38.00	[ICRA]A+(Negative) reaffirmed; [ICRA]A1 downgraded from [ICRA]A1+
Total	**1064.00**	**1064.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action for Thirumalai Chemicals Limited (TCL) factors in its low operating margins and cash accruals in FY2024. TCL announced its FY2024 results (material event) on May 15, 2024, to the stock exchanges. The moderation in margins has impacted the coverage metrics. The operating margins have declined on account of the weak Phthalic anhydride (PAN)-Orthoxylene (OX) spread amid a slowdown in demand. Moreover, there is pressure on Maleic anhydride's (MAN) realisations and margins, which is likely to continue in the near term.

ICRA also notes that the increase in costs in the company's debt-funded capex plans have resulted in additional debt requirements and exerted pressure on its capital structure and coverage indicators. The company also remains susceptible to project execution risks due to its large capex plans. Timely completion of both the Dahej (phase II) and US projects without any further cost and time overruns will continue to be a key monitorable. The projects, once completed and stabilised, are expected to offer a favourable product portfolio and geographical diversification and result in improved operating margins.

The ratings also remain constrained by the exposure of the profitability margins to fluctuation in raw material prices and TCL's presence in commodity chemicals that limits its pricing flexibility.

The ratings, however, continue to positively factor in TCL's established track record and strong market position in the Phthalic anhydride (PAN) segment in India and the diversification benefits from the sale of downstream derivative products such as esters, food acids and MAN by its subsidiary - Optimistic Organic SDN BHD (OOSB).The ratings also factor in the healthy capacity utilisation of the Ranipet plant, reflecting the benefit of modernisation capex in the last few years. Further, ICRA notes the diversification efforts undertaken by the company to supply MAN to other countries to improve the realisations. ICRA expects the company's medium-term performance to benefit from the favourable trade protection measures taken by the Government of India (GoI) and a positive demand outlook in the domestic end-user industry.

The Negative outlook on the long-term rating reflects pressure on TCL's operating margins on account of volatility in the PAN-OX spreads.

Key rating drivers and their description

Credit strengths

Extensive experience and market position in PAN - TCL is the second-largest player in India with a significant market share in the domestic PAN industry. The company's five decades of experience has resulted in established relationships with clients in key end-user industries such as Plasticizers, copper phthalocyanine (CPC), Paints and Unsaturated polyresins (UPR). TCL also has a longstanding relationship with Reliance Industries Limited, the supplier of the raw material, OX, and operates on an assured offtake model.

Positive demand outlook in domestic end-user industries – Infrastructure investments and expansion of major end-user industries is expected to improve the demand for PAN in the domestic market in the medium term. Trade protection metrics, such as anti-dumping duty, and the mandatory Bureau of Indian Standards certification for PAN imports are expected to benefit domestic PAN manufacturers.

Diversification into related chemicals – The company produces Phthalate esters and food acids, which are downstream derivatives. The contribution of these products has grown over the years. The company also produces Maleic anhydride (MAN) in its Malaysian subsidiary – OOSB. The company is also setting up a greenfield integrated food ingredients production facility in the US. These initiatives would provide diversification benefits to the consolidated entity in the medium term.

Credit challenges

Presence in commodity chemical industry and competition from imports limit pricing flexibility - TCL's realisations are influenced by the overall demand-supply dynamics in a region, given the limited product differentiation and volatility in feedstock Orthoxylene prices. The key end-user industries of the product are Plasticizers, Paints and Unsaturated Polyester Resins, which are mainly used in the infrastructure, construction and automobile sectors. Hence, the demand is based on the broader economic conditions. With regard to supply, the market dynamics change significantly based on the production and consumption in key markets such as China, Korea and South East Asia. Though TCL has medium to long-term contracts with many customers, the product realisations are volatile.

Going forward, as domestic demand is higher than the domestic capacity, the offtake risk for producers like TCL is low at present and is likely to remain so in the near term. However, domestic PAN companies are undertaking significant capex. Hence, once the capacities are stable, PAN is expected to be exported for a period of 1-2 years before domestic demand matches the increased supply. Most of the end users of Phthalic anhydride are in infrastructure and the Government's thrust on infrastructure is likely to improve the growth rates for Phthalic anhydride in India. The company's performance also remains susceptible to the changes in Government policies and regulations regarding international trade and trade protection metrics.

Exposure of profitability margins to fluctuation in raw material price – The price of OX has been volatile and based on crude price and the demand trends for other products from the xylene stream. The company's product demand and its working capital intensity are impacted during periods of high OX prices. TCL has, however, rationalised its production lead time and inventory management in recent years, thereby strengthening its ability to pass on OX price changes to its customers. Nonetheless, the company's profit margin remains susceptible to the volatility in PAN-OX spreads, which depend on the demand-supply dynamics of PAN in the region. The operating margins were impacted in FY2024 owing to the reduced PAN-OX spreads and pressure on realisations from MAN, which is expected to continue in the near term. However, ICRA notes the company's diversification efforts to supply MAN to other countries where the realisations are expected to be higher. Further, ICRA also notes that TCL's ability to withstand the above-mentioned risks is better than the earlier downturns due to several cost-control initiatives taken by the company in the last few years.

Large debt-funded capex plans and project execution risks –TCL is in the process of undertaking a large capex under a subsidiary in the US to manufacture food acids, which will be debt funded (availed by the subsidiary but guaranteed by TCL). The project has witnessed delays owing to the pandemic and various global tensions, delaying the shipments to the project site. The cost of the US project has been revised upwards and is expected to be completed in the next 12-15 months.

The company is also undertaking the second phase of the Dahej project to add a PAN capacity of ~90,000 MTPA and fumaric acid capacity of ~10,000 MT. The cost incurred is ~Rs. 705 crore against an earlier estimate of ~Rs. 550 crore. This majorly includes the GST component of ~Rs. 110-120 crore. This project is expected to be completed in the next couple of months. The fumaric acid capacity has already been commissioned. The ongoing capex at the US and the expected capex at Dahej phase II will expose the consolidated entity to project execution risks and put pressure on the consolidated capital structure and coverage indicators over the near to medium term. TCL has the experience of executing similar project in Ranipet of Phthalic Anhydride that minimises risk of execution of Dahej project.

Environmental and Social Risks

Safety and environmental health-related concerns associated with chemicals expose the industry to the risk of tightening regulatory norms for the production, handling, disposal and transportation of chemical products. Further, in the event of accidents, the litigation risks and liabilities for clean-up could be high. TCL has been a zero-liquid discharge company for the past several years and has also recently invested in the latest technology at its water treatment facility. While TCL has a demonstrated track record of running its operations safely, the nature of the risk (being low frequency-high impact) weighs on the ratings. TCL has robust process safety management in place.

Further, operating responsibly is an imperative and instances of non-compliance with environmental, health, and safety norms could have an adverse impact on the local community which could manifest in the form of protests, constraining the ability to operate or expand the capacity. TCL hasn't experienced/reported any incident suggestive of safety lapses in its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be a monitorable.

Liquidity position: Adequate

The company's liquidity profile is adequate, supported by cash and cash equivalents of ~Rs. 633.46 crore at the consolidated level as on March 31, 2024, and expected positive cash flows from operations in FY2025. The availability of unutilised working capital limits and healthy cash balances support the company's liquidity profile against expected debt repayment obligations of Rs. 35-40 crore in FY2025 and equity requirement for the planned capex during this period.

Rating sensitivities

Positive Factors – A rating upgrade is unlikely in the near term owing to the Negative outlook. However, the outlook could be revised to Stable if the company demonstrates a sustained improvement in margins that would improve the coverage metrics while maintaining the working capital intensity.

Negative Factors - Pressure on the ratings could arise if there is a sustained decline in revenue and profitability, or a stretch in the working capital cycle, along with a planned debt-funded capex, which will weaken the credit profile. The ratings may be downgraded if the net debt/OPBITDA exceeds 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemicals
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. The details of consolidation are provided in Annexure II

About the company

TCL started its operations in 1976 at Ranipet in Tamil Nadu as a single product petrochemical company, manufacturing Phthalic anhydride, with a production capacity of 6,000 TPA. Over the years, TCL has expanded its total PAN manufacturing capacity to ~1,72,000 TPA, including Dahej phase 1, and has added other products to its portfolio, which includes food additives such as Maleic acid and fumaric acid, and PAN derivatives such as di-ethyl phthalate (DEP) and phthalimide (PID). TCL caters to customers in the construction, auto, paint, food, personal care and pharma industries. It also has a Maleic anhydride (MAN) manufacturing facility in Malaysia, under its step-down subsidiary, Optimistic Organic Sdn. Bhd. (OOSB).

Key financial indicators (audited)

TCL Consolidated	FY2023	FY2024
Operating income	2,133.2	2083.1
PAT	89.8	-38.8
OPBDIT/OI	8.8%	2.5%
PAT/OI	4.2%	-1.9%
Total outside liabilities/Tangible net worth (times)	1.0	1.9
Total debt/OPBDIT (times)	2.7	24.5
Interest coverage (times)	6.0	1.2

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
					May 24, 2024	Feb 14, 2024	Aug 04, 2023	May 17, 2022	Apr 22, 2021
1	Term loans	Long term	50.00	50.00	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+(Stable)	[ICRA]A+ (Positive)
2	Fund-based limits	Long term	976.00	-	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+(Stable)	[ICRA]A+ (Positive)
3	Non-fund based facilities	Short term	-	-		-	-	[ICRA]A1+	[ICRA]A1+
4	Unallocated	Long term	-	-		-	-	[ICRA]A+(Stable)	[ICRA]A+ (Positive)
5	Unallocated	Short term	-	-		-	-	[ICRA]A1+	[ICRA]A1+
6	Unallocated	Long term/ Short term	38.00	-	[ICRA]A+(Negative)/ [ICRA]A1	-	-	-	[ICRA]A+ (Positive)/ [ICRA]A1+
7	Non-fund based	Short term	(966.00)	-	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	-	-

	facilities (sub limit)								
8	**Short-term term loans**	Short term	-	-	-	-	**[ICRA]A1+**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term– Fund-based limits	Simple
Short-term non-fund based limits	Very Simple
Unallocated limits	Not Applicable

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
-	**Term loan I**	Aug 03, 2019	NA	Aug 31, 2025	20.00	[ICRA]A+(Negative)
-	**Term loan II**	Jul 31, 2019	NA	Jul 31, 2026	30.00	[ICRA]A+(Negative)
-	**Fund-based limits**	NA	NA	NA	976.00	[ICRA]A+(Negative)
-	**Non-fund based facilities (sublimit)**	NA	NA	NA	(966.00)	[ICRA]A1
-	**Unallocated limits**	NA	NA	NA	38.00	[ICRA]A+(Negative)/ [ICRA]A1

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	TCL Ownership	Consolidation Approach
Cheminvest Pte. Ltd.	100.00%	Full Consolidation
Optimistic Organic Sdn Bhd.	100.00%	Full Consolidation
Lapiz Europe Ltd	100.00%	Full Consolidation
TCL Global B V	100.00%	Full Consolidation
TCL INC	100.00%	Full Consolidation
TCL SPECIALTIES LLC	100.00%	Full Consolidation
TCL Intermediates Pvt Ltd	100.00%	Full Consolidation

Source: Company

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Kushal Kumar B
+91 40 6939 6408
kushal.kumar@icraindia.com

Arvind Srinivasan
+91 44 4596 4323
arvind.srinivasan@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

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

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

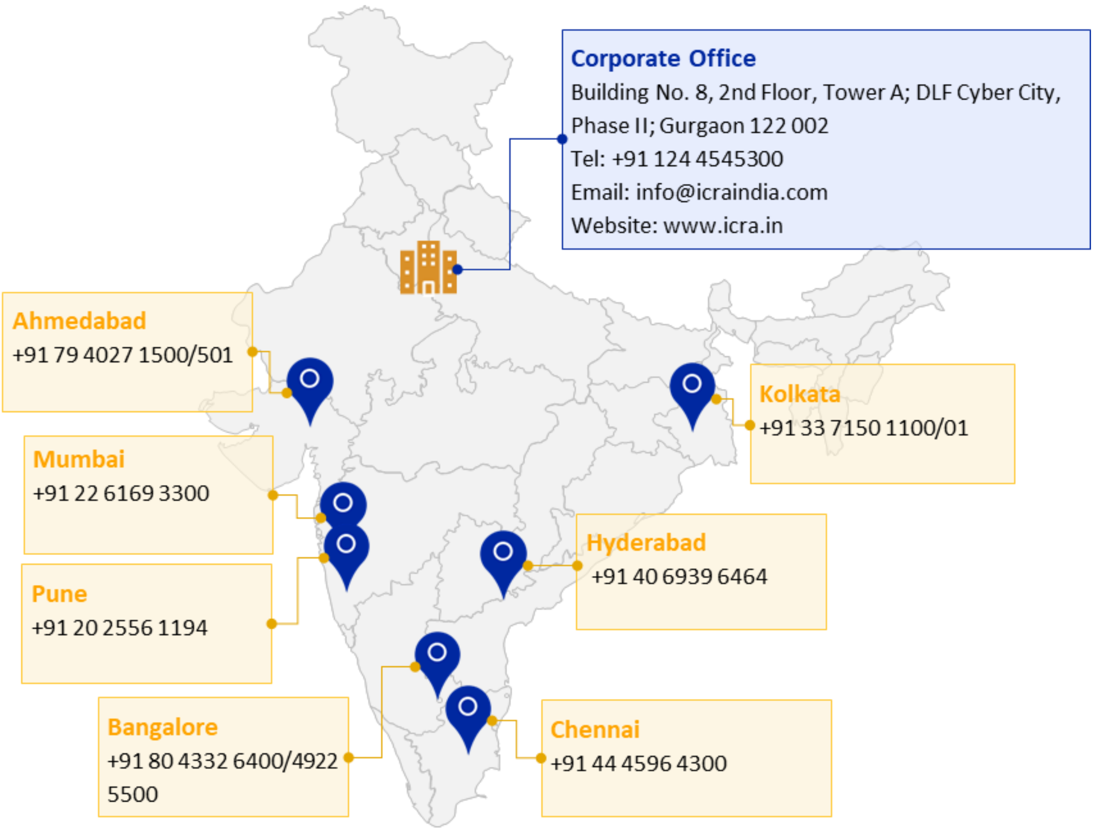
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.