

November 06, 2024

The Travancore Cochin Chemicals Limited: Long-term rating downgraded to [ICRA]BB; short-term rating reaffirmed; outlook revised to 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; downgraded from [ICRA]BB+; outlook revised to Stable from Negative
Short-term non-fund based facilities	15.0	15.0	[ICRA]A4+; reaffirmed
Long-term & short-term fund-based & non-fund based limits	25.0	25.0	[ICRA]BB; downgraded from [ICRA]BB+; outlook revised to Stable from Negative; [ICRA]A4+; reaffirmed
Total	70.0	70.0	

*Instrument details are provided in Annexure-I

Rationale

The rating action for The Travancore Cochin Chemicals Limited (TCCL) factors in its weak profitability owing to unfavourable realisations because of high power and employee costs. The profitability declined significantly in FY2024 and H1 FY2025, impacting its coverage metrics, and is expected to remain subdued in the near term.

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. ICRA notes the company's efforts to reduce these costs, though the implementation of the planned steps is a key monitorable. The ratings are also constrained by the company's moderate scale of operations vis-à-vis other major industry players.

The ratings, however, continue to factor in the company'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 of the company.

The Stable outlook on the long-term rating reflects ICRA's opinion that TCCL will continue to benefit from its extensive experience in the chlor-alkali industry with an established customer profile.

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 (75-90%) of the revenues, followed by hydrochloric acid and chlorine.

Robust capital structure – The company repaid all its term debt obligations in FY2023. In FY2024 and H1 FY2025, the company has utilised its working capital limits, though the capital structure remains healthy with a gearing of 0.12 times as on September 30, 2024.

Credit challenges

Decline in revenues and margins impacting coverage metrics with lower caustic soda realisations and high fixed costs – Caustic soda realisations declined in FY2024 and H1 FY2025, pulling down the revenue to Rs. 278.0 crore in FY2024 and to Rs. 137.7 crore in H1 FY2025 from Rs.372.6 crore in FY2023. This has resulted in operating losses during these periods because of the high power and employee costs, which are fixed. Power costs are high across the sector as caustic soda production is a power-intensive process. However, for TCCL, its employee costs are also high compared to the other industry players, impacting its cost structure further. Power costs have been in the range of 35-51% of the OI, while employee costs have accounted for 19-30% of the OI for TCCL over the last five years. The company is taking the necessary steps to reduce the fixed costs, though their impact 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 during September 2021 to January 2022. After remaining high till January 2023, there has been a steep decline in the 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 as the company has sufficient unutilised sanctioned working capital limits. The average working capital utilisation in last the 6 months ended September 2024 was 27%. Further, the company does not have any repayment obligations.

Rating sensitivities

Positive factors – ICRA may upgrade TCCL’s ratings in case of sustained improvement in profitability with healthy cost structure 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 2.5 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	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 the membrane cell technology.

Key financial indicators (audited)

TCCL Standalone	FY2023	FY2024	H1FY2025*
Operating income	372.6	278.0	137.7
PAT	67.91	-27.79	-12.07
OPBDIT/OI	24.1%	-6.2%	-5.2%
PAT/OI	18.2%	-10.0%	-8.8%
Total outside liabilities/Tangible net worth (times)	0.47	0.57	0.68
Total debt/OPBDIT (times)	-	-0.78	-1.10
Interest coverage (times)	64.8	-25.74	-9.63

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 (FY2025)		Chronology of rating history for the past 3 years						
		Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long-term	30.00	06-Nov-2024	[ICRA]BB (Stable)	05-Mar-2024	[ICRA]BB+ (Negative)	03-Feb-2023	[ICRA]BB+ (Stable)	01-Feb-2022	[ICRA] BB+ (Stable)
			16-Jun-2022	[ICRA]BB+ (Stable)	07-Apr-2021	[ICRA]BB+ (Negative)				
Non-fund based limits	Short term	15.00	06-Nov-2024	[ICRA]A4+	05-Mar-2024	[ICRA]A4+	03-Feb-2023	[ICRA]A4+	01-Feb-2022	[ICRA]A4+
			16-Jun-2022	[ICRA]A4+	07-Apr-2021	[ICRA]A4+				
Unallocated limits	Long term /Short term	0.0						01-Feb-2022	[ICRA] BB+ (Stable)/ [ICRA]A4+	
								07-Apr-2021	[ICRA]BB+ (Negative)/ [ICRA]A4+	
Term loan	Long term	0.0				16-Jun-2022	[ICRA]BB+ (Stable)	01-Feb-2022	[ICRA]BB+ (Stable)	
Fund-based & non-fund based	Long term /Short term	25.00	06-Nov-2024	[ICRA]BB (Stable)/ [ICRA]A4+	05-Mar-2024	[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 (Stable)
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 (Stable)/[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

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