

The Travancore Cochin Chemicals Limited

February 20, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits – CC	20.0	20.0	[ICRA]BB (Stable); upgraded from [ICRA]B+(Stable)
Fund-based facilities – SLC/BD	1.0	1.0	[ICRA]A4+; upgraded from [ICRA]A4
Non-fund based facilities – BG/LC	9.0	11.0	[ICRA]A4+; upgraded from [ICRA]A4
Total	30.0	32.0	

*- Instrument details are provided in Annexure-1.

Rationale

The upgrade in the ratings considers The Travancore Cochin Chemicals Limited's (TCCL) healthy growth in profits and cash accruals in FY2018 and the current fiscal, supported by improved demand for chloro-alkali products and sharp increase in the caustic soda realisations. The ratings factors in the company's strong financial profile, reflected by comfortable capital structure with conversion of loans from the Government of Kerala (GoKl) to equity, robust coverage indicators and liquidity position, supported by healthy accruals in the last two fiscals. The ratings draw comfort from the company's established track record in the chloro-alkali business and its position as the sole caustic-soda manufacturer in Kerala with reputed clientele and financial support from GoKl, arising from its status as a state-level Public Sector Undertaking. Additionally, the ongoing dispute resolution with the Kerala State Electricity Board (KSEB) over the power charges payable and availability of power through open access, is expected to support profitability and reduce its liabilities. The ratings, take into account the process-optimisation initiatives undertaken by the company to improve the operational efficiency as well as to reduce its power requirements which are expected to result in improved profitability, going forward.

The ratings, however, are constrained by TCCL's dependence on the relatively high-cost grid power, increasing employee costs and logistical disadvantage with respect to procurement of salt, the key raw material, from Gujarat. Although the company has been adding new customers to diversify its revenue streams, the customer concentration remains high with top five customers accounting for ~70% of the revenues in FY2018. Further, TCCL's revenue and profitability continue to remain exposed to inherent cyclicalities in the chloro-alkali industry and government regulations. Going forward, TCCL's ability to conclude the capex within the budgeted cost and time, and achieve healthy revenue growth supported by enhanced capacity, while maintaining healthy profitability would be the key rating sensitivities.

Outlook: Stable

ICRA believes that TCCL will continue to benefit from its established track record in the chloro-alkali business in Kerala and its position as the sole caustic-soda manufacturer. The ratings may be upgraded if the company is able to demonstrate sustainable growth in revenues while maintaining healthy profitability levels. Conversely, the outlook may be revised to Negative if any significant reversal in the industry dynamics weakens its profitability, or higher-than-anticipated capital expenditure or deterioration in the working capital cycle weakens its liquidity position.

Key rating drivers

Credit strengths

Established track record of the company in the chloro-alkali business – Incorporated in 1949, TCCL is one of the largest manufacturer of caustic soda in the country and the sole caustic soda manufacturer in Kerala. It receives significant financial support from the government for being a state-level PSU (wholly-owned by GoKI and its entities). The sale of caustic soda contributes to a major portion (~86% in FY2018) of the revenues, followed by hydrochloric acid and sodium chlorate.

Healthy revenue growth and improved profitability with rise in caustic soda prices – TCCL recorded a healthy revenue growth in FY2018 (~21% YoY), driven by sharp increase in caustic soda prices due to improved domestic demand and reduced global supplies. With better sales realisation, the operating profitability improved to 19.4% in FY2018 resulting in healthy cash accruals and strong liquidity position. Although, with the slump in caustic soda prices in the current fiscal, the revenue growth and profitability is likely to moderate in FY2019, it is expected to remain significantly higher than FY2017 levels.

Robust capital structure and coverage indicators with the conversion of GoKI loans to equity – TCCL has achieved debt free status with the conversion of Rs. 13.7-crore term loan from GoKI and its accrued interest of Rs. 9.9 crore to company's equity in June 2018. Additionally, healthy accretion to reserves in FY2018 and the current fiscal resulted in robust coverage indicators and healthy liquidity position.

Capex towards capacity expansion and improving operational efficiency – TCCL, over the next two years, has a capex plan of Rs. 50.0 crore, which is likely to be entirely funded through internal accruals. With current capacity being fully utilised, TCCL is setting up a new unit with a capacity of 75 tpd (tonne per day) in addition to its existing capacity of 175 tpd, at a cost of Rs. 30.0 crore, which is scheduled to commence operations from April 2020. As a process-optimisation initiative, TCCL plans to install a caustic soda lye concentration plant and an HCl synthesis oven at a total cost of Rs. 20.0 crore. Lye concentration plant increases the caustic soda lye concentration resulting in better sales realisation, while HCl synthesis oven helps TCCL to cut down its power expenses, as the steam generated in the oven will be used for the electrolysis of brine. However, any adverse impact on the company's profitability due to global demand-supply scenario of caustic soda may result in any project cost or time overrun or reliance on external debt for funding.

Credit challenges

High customer concentration – The company faces high customer concentration with the top-five customers constituting to around 70% of its total sales in FY2018. However, TCCL's established business relationships with reputed clientele and the presence of long-term contracts with its key customers, mitigates the off-take risk.

Inherent cyclicity in chloro-alkali industry – TCCL's revenues and profitability continues to remain exposed to cyclicity inherent in the chloro-alkali industry and the vulnerability of demand for caustic soda to cost of imports, which is a factor of foreign exchange rates and government regulations.

Liquidity Position

TCCL's liquidity position remains comfortable as reflected by positive free cash flows in the last two fiscals, healthy cash balance of Rs. 25.6 crore as on March 31, 2018 and minimal utilisation of fund-based working capital limits during the 12-months period that ended on January 2019. Additionally, with the conversion of loans from GoKI to the company's equity in June 2018, TCCL does not have any debt repayment obligations. Notwithstanding a substantial capex outgo in the near term primarily towards capacity addition, TCCL's liquidity position is likely to remain adequate, supported by healthy cash balance, undrawn working capital limits and expected cash accruals from operations.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

About the company:

The Travancore Cochin Chemicals Limited (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 & Industrial Corporation Limited by Seshasayee Brothers with caustic soda production capacity of 20 tpa (tonne per annum). In 1960, Government of Travancore Cochin acquired TMCC and it was renamed as The Travancore Cochin Chemicals Limited. TCCL manufactures basic industrial chemicals viz., caustic soda and chlorine products. The current licensed capacity of TCCL is 175 tpd of caustic soda, i.e., 57,750 tpa using membrane-cell technology from AGC (Asahi Glass Co., Japan) and UHDE (Germany).

In FY2018, the company reported a net profit of Rs. 27.5 crore on an operating income of Rs. 244.2 crore compared to a net profit of Rs. 5.6 crore on an operating income of Rs. 201.7 crore in the previous year.

Key financial indicators (Audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	201.7	244.2
PAT (Rs. crore)	5.6	27.5
OPBDIT/ OI (%)	-2.6%	19.4%
RoCE (%)	25.5%	91.4%
Total Debt/ TNW (times)	23.7	0.8
Total Debt/ OPBDIT (times)	(7.0)	0.5
Interest coverage (times)	(1.1)	12.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating Feb 2019	Date & Rating in FY2018 Jan 2018	Date & Rating in FY2017 Dec 2016	Date & Rating in FY2016 Feb 2016
1 Fund-based facility (CC)	Long Term	20.0	-	[ICRA]BB (Stable)	[ICRA]B+ (Stable)	[ICRA]B	[ICRA]B
2 Fund-based facilities (SLC/BD)	Short Term	1.0	-	[ICRA]A4+	[ICRA]A4	[ICRA]A4	[ICRA]A4
3 Non-fund based facilities (BG/LC)	Short Term	11.0	-	[ICRA]A4+	[ICRA]A4	[ICRA]A4	[ICRA]A4

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash-credit	NA	NA	NA	20.0	[ICRA]BB(Stable)
NA	Stand-by Line of Credit/ Bill Discounting	NA	NA	NA	1.0	[ICRA]A4+
NA	Bank Guarantee/ Letter of credit	NA	NA	NA	11.0	[ICRA]A4+

Source: TCCL

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