May 17, 2022

Thirumalai Chemicals Limited: Ratings reaffirmed; outlook revised from Positive to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loan	131.99	200.00	[ICRA]A+(Stable); reaffirmed and outlook revised to Stable from Positive
Long term, Fund based	170.80	121.00	[ICRA]A+ (Stable); reaffirmed and outlook revised to Stable from Positive
Long Term - Unallocated	105.41	87.20	[ICRA]A+ (Stable); reaffirmed and outlook revised to Stable from Positive
Short Term - Unallocated	102.60	61.80	[ICRA]A1+; reaffirmed
Short term, Non-fund based Facilities	304.80	355.00	[ICRA]A1+; reaffirmed
Long term / Short term- Unallocated	9.40	-	-
Total	**825.00**	**825.00**	

**Instrument details are provided in Annexure-1;*

Rationale

The revision in the rating outlook of Thirumalai Chemicals Limited (TCL/the company) to Stable from Positive considers the substantial increase in its debt-funded capex plans compared to the earlier expectations, which will put some pressure on the company's capital structure and coverage indicators in the medium term. The earlier outlook was based on the expectation that if the healthy performance of the company sustains, then despite the stated debt funded capex plans for expansion at Dahej and the greenfield project in the US (under the subsidiary), the capital structure and coverage metrics are likely to remain comfortable in the medium term. ICRA notes that while there was a healthy growth in revenues and margins at the consolidated level in 9M FY2022, and the capital structure and coverage indicators also remained healthy, going forward due to the large capex plans the company would remain susceptible to project execution risks and the timely completion of the projects without cost and time overruns will be a key monitorable. The projects once completed and stabilised are expected to offer a favourable product portfolio and the benefit of geographic diversification.

The ratings consider the established track record and market position of TCL in the phthalic anhydride (PAN) segment in India and the moderate working capital intensity of its operations. Diversification benefits can be derived from the sale of downstream derivative products such as esters and food acids and maleic anhydride by its subsidiary - Optismistic Organic SDN BHD (OOSB). ICRA also takes note of the stabilisation of operations at the new unit at Dahej (phase 1) and the healthy improvement in the capacity utilisation at the Ranipet plant, reflecting the benefit of modernisation capex in current in past few years. ICRA expects the company's near to medium term performance to benefit from the favourable trade protection measures taken by the Government and further ramp up in Dahej plant capacity utilisation levels.

The ratings however remain constrained by the susceptibility of the financial performance to the volatility in the phthalic anhydride (PAN)–orthoxylene (OX) spreads, the cyclicality in demand from the end-user industries, competition from imports and the changes in duty structure and trade protection measures. ICRA notes that TCL's ability to withstand the above-mentioned risks is better, compared to the earlier downturns due to several cost-control initiatives taken by the company in the last few years.

The Stable outlook on the rating reflects ICRA's opinion that TCL will continue to benefit from the extensive experience of its promoters and its strong market position in the PAN segment , which will support its credit profile.

Key rating drivers and their description

Credit strengths

Extensive experience and market position in PAN industry – TCL is the second-largest player with a significant market share in the domestic PAN industry, which is a duopoly. The company's three decades of experience has resulted in established relationships with clients in key end-user industries such as plasticizers, CPC, paints, and 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.

Healthy financial risk profile – The consolidated operating income reported a healthy growth at Rs. 1,415.4 crore in 9M FY2022 compared with Rs. 1,085.7 crore in FY2021, driven by growth in the standalone entity on the back of healthy demand and improved realisation for PAN and food acids and supported by improved capacity utilisation at Ranipet and ramp-up in production at Dahej phase 1 and the and healthy growth at the subsidiary – OOSB – also supported growth. The consolidated operating profitability also improved to 21.4% in 9M FY2022 compared with 20.4% in FY2021, benefiting from favourable PAN-OX spreads, the cost savings from modernisation capex and improved demand for maleic anhydride at the Malaysian subsidiary. Moreover, the capital structure and coverage indicators remained healthy, characterised by a gearing of 0.2 times, total outside liability/tangible net worth of 0.7 times as on September 30, 2021, interest coverage ratio of 21.0 times in 9M FY2022, total debt/OPBDITA of 0.5 times and NCA/TD of 1.4 times in 6M FY2022.

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 due to the improving demand in the market. Maleic anhydride (MAN) operations at OOSB improved in 9M FY2022, driven by the increase in capacity utilisation and improved MAN realisations. The company is also setting up a greenfield food acid 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 – Limited product differentiation and large volume of inter-regional trade of PAN have resulted in TCL's realisations being influenced by the overall demand-supply dynamics in the region. The key end-user industries of the product are plasticizers, paints and pigments, which are mainly used in the construction and automobile sectors. Hence, the demand is based on 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.

Imports of PAN have moderated to 1,09,370 MT in 9M FY2022 and 1,40,800 MT in FY2021from 174480 MT in FY2020 due to the pandemic and favourable trade protection measures with the imposition of anti-dumping duty on imports from several regions. As the 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 despite the planned increase in domestic capacity over next few years. However, the company's performance 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.

Large debt-funded capex plans and project execution risks – The company completed its Dahej phase 1 in Q4 FY2021 and started commercial operation from June 2021. The operations of Dahej phase 1 plant was ramped up in the current fiscal. TCL is also in the process of undertaking a large capex under a subsidiary in the US for manufacturing food acids, which will be partly debt funded (availed by the subsidiary but guaranteed by TCL). The project has been delayed by a year due to the disruption caused by the pandemic. The project cost for the US project has been revised upwards and is expected to be completed by March 2024. The company will be undertaking the second phase of the Dahej project to add a PAN capacity of ~84,000 MTPA and fumaric acid capacity of ~10,000 MT. The capex cost for Dahej phase 2 has also been revised upwards. The ongoing capex at US and the expected capex at Dahej phase 2 will expose the consolidated entity to project execution risks and put some pressure on the consolidated capital structure and coverage indicators over the near to medium term.

Liquidity position: Strong

The company had cash flow from operations of ~Rs.228 crore in 6MFY2022 at the consolidated level and the same is expected to improve in FY2022 and remain positive in the near term. The healthy cash flow from operations coupled with the availability of unutilised working capital limits and healthy cash and bank balance (~Rs. 450.22 crore as on Sep 30, 2021) supports the company's strong liquidity profile against repayment obligations of Rs. 24.55 crore in FY2022 and 25.56 crore in FY2023 and equity requirement for the planned capex during this period.

Rating sensitivities

Positive Factors – ICRA could upgrade the rating if the company's financial performance is supported by the benefits from the modernisation capex and the incremental capacity addition. The rating can be upgraded if the capital structure and coverage indicators remain comfortable despite the debt-funded capex plans, while the working capital intensity is maintained and the revenue and profitability improves on a sustained basis. A specific metric that can result in an upgrade includes a net debt/OPBITDA of less than 1.0 times on a sustained basis.

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 the 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 Rating Methodology for Entities in the Chemical Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. The details of consolidation is provided in Annexure 2.

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. The company is a part of the Thirumalai Group, which has business interests in chemicals, surfactants, pigments and education. Over the years, TCL has expanded its PAN manufacturing capacity to ~1,45,000 TPA 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 manufacturing facility in Malaysia, under its step-down subsidiary, Optimistic Organic Sdn. Bhd. (OOSB). In June 2021, the company has also started the commercial operation of its 24,000-MTPA PAN production facility at Dahej, Gujarat.

Key financial indicators (Unaudited)

TCL Consolidated	FY2020	FY2021	9MFY2022
Operating Income (Rs. crore)	1,084.8	1,085.7	1,415.4
PAT (Rs. crore)	23.2	117.7	191.2
OPBDIT/OI (%)	7.85%	20.36%	21.36%
PAT/OI (%)	2.14%	10.84%	13.51%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.7	NA
Total Debt/OPBDIT (times)	2.3	0.8	NA
Interest Coverage (times)	5.1	10.6	NA

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	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 17, 2022	**Apr 22, 2021**	Apr 07, 2020	May 17, 2019
1	Term loan	Long Term	200.00	200.00	[ICRA]A+(Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Negative)	[ICRA]A+(Stable)
2	Fund based	Long Term	121.00	-	[ICRA]A+(Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Negative)	[ICRA]A+(Stable)
3	Non-fund based Facilities	Short Term	355.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Unallocated	Long Term	87.20	-	[ICRA]A+(Stable)	[ICRA]A+ (Positive)	-	-
5	Unallocated	Short Term	61.80		[ICRA]A1+	[ICRA]A1+	-	-
6	Unallocated	Long term / Short term	-		-	[ICRA]A+ (Positive)/ [ICRA]A1+	[ICRA]A+ (Negative)/ [ICRA]A1+	[ICRA]A+(Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Non fund based	Very Simple
Cash Credit	Simple
Unallocated	NA

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Term Loan I	03-Aug-19	7.70%	03-Aug-25	100.00	[ICRA]A+ (Stable)
-	Term Loan II	31-Jul-19	8.25%	31-Jul-26	100.00	[ICRA]A+ (Stable)
-	Cash Credit	NA	NA	NA	121.00	[ICRA]A+ (Stable)
-	Non-fund based (LC/BG)	NA	NA	NA	355.00	[ICRA]A1+
-	Unallocated	NA	NA	NA	87.20	[ICRA]A+ (Stable)
-	Unallocated	NA	NA	NA	61.80	[ICRA]A1+

Source: *Company*

Annexure-2: 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;*

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