August 30, 2023

TCL Intermediates Private Limited: [ICRA]BBB+(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	355.00	[ICRA]BBB+(Stable); assigned
Long term – Unallocated limits	50.00	[ICRA]BBB+(Stable); assigned
Total	**405.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating factors in the strong parentage of TCL Intermediates Private Limited (TCLIPL), being part of Thirumalai Chemicals Limited (TCL, rated [ICRA]A+(Stable)/[ICRA]A1+). The rating also factors in the similar lines of business of TCLIPL and the parent, which has an extensive experience and a strong market position in the primary product – Phthalic Anhydride (PAN). ICRA also notes the close proximity of TCLIPL's upcoming manufacturing unit in Dahej, Gujarat, to key raw material sources and end users of their products, which is likely to lower the freight expenses and fetch better margins vis-à-vis TCL's existing plant in Ranipet.

The rating is, however, constrained by execution risks associated with the project stage entities and the substantial debt-funded capex for the Dahej project. Timely completion of the project without cost and time overruns will be a key monitorable. The rating is also constrained by the limited pricing flexibility in the commodity chemicals industry, the volatility in phthalic anhydride (PAN)–orthoxylene (OX) spreads, competition from imports and the changes in the duty structure and trade protection measures.

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

Key rating drivers and their description

Credit strengths

Strong parentage and experienced management – TCLIPL is a 100% wholly-owned subsidiary of TCL. The company is a part of the Thirumalai Group, which has business interests in chemicals, surfactants, pigments and social initiatives in education and healthcare. TCL is the second-largest player in India with a significant market share in the domestic PAN industry, which has three producers. TCL'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 raw material orthoxylene, and operates on an assured offtake model. Over the years, TCL has expanded its total PAN manufacturing capacity to ~1,72,000 TPA and has added other products to its portfolio, which includes food additives such as Malic acid and Fumaric acid, and PAN derivatives such as Di-ethyl phthalate (DEP) and Phthalimide (PID).

Location advantages and the same line of business as the parent - TCLIPL's upcoming manufacturing unit in Dahej, Gujarat, has locational advantages with close proximity to the key raw material sources and end-product users, which is likely to lower the freight expenses and fetch better margins vis-à-vis TCL's existing plant in Ranipet. TCLIPL will be producing PAN and

Fumaric Acid, which is the established business of the parent. Thirumalai Chemicals Limited has extensive experience in manufacturing and selling PAN over the last few decades and has considerable expertise in the field, considering that it is one of the three domestic manufacturers of PAN.

Credit challenges

Large debt funding for project and associated execution risks – The total estimated cost for the Dahej project is Rs. 540 crore, which is funded by a substantial debt of Rs. 405 crore (of which Rs. 355 crore is sanctioned, and the company has received in-principle sanction for the balance Rs. 50 crore) and the balance through equity infusion from TCL. TCLIPL, being a project stage entity, is exposed to execution risks. Timely completion of the project without cost and time overruns will be a key monitorable.

Limited pricing flexibility in commodity chemicals industry and competition from imports - Limited product differentiation and large volume of imports of PAN have made the realisations vulnerable to 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 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.

The imports of PAN have moderated to 94,250 MT in FY2023 from 1,21,211 MT in FY2022 due to the trade protection measures in several regions. Going forward, in the near term, the mandatory Bureau of Indian Standards (BIS) certification for foreign PAN manufacturers is expected to be a key factor impacting imports. As the current domestic demand is higher than the domestic capacity, the offtake risk for producers like TCLIPL 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 end-users of PAN are in the infrastructure sector and the Government's thrust on infrastructure is likely to improve the growth rates for PAN in India. The company's performance also remains susceptible to changes in Government policies and regulations regarding international trade and trade protection metrics. The current thrust of the government in formulating FTA with Western nations shall support the domestic producers in India.

Exposure of profitability margins to fluctuations in raw material prices - 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 would be impacted during periods of high OX prices. The company's profit margin will be susceptible to the volatility in PAN-OX spreads, which depend on the demand-supply dynamics of PAN in the region.

Liquidity position: Adequate

The company's liquidity position is adequate, supported by adequate undrawn loan against the pending construction cost. The total project cost is Rs. 540 crore, funded by Rs. 405 crore debt and the balance from equity. As on July 31, 2023, the debt sanctioned is Rs. 355 crore and the equity infused is Rs. 150 crore. The company has received in-principle sanction for the balance Rs. 50 crore debt.

Rating sensitivities

Positive factors – The rating could be upgraded on timely completion of the project with no material cost overruns, along with the stabilisation and ramp up of operations of TCLIPL. A significant and sustained improvement in the credit profile of the parent – Thirumalai Chemicals Limited - will also support an upgrade.

Negative factors – The rating could be revised downwards in case of any time or material cost overruns, or delays in the stabilisation and ramp-up of operations of TCLIPL. A significant and sustained weakening in the credit profile of the parent– Thirumalai Chemicals Limited - or the weakening of linkages between the parent and TCLIPL will also weigh on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach – Implicit Support from Parent or Group Rating Methodology - Chemicals
Parent/Group support	Parent/Group Company: Thirumalai Chemicals Limited The rating factors in the benefit arising from being a 100% subsidiary of Thirumalai Chemicals Limited and the potential financial support from the parent, should the need arise
Consolidation/Standalone	The rating is based on the standalone financials of the company

About the company

TCLIPL was set up in 2021 to undertake the Dahej Phase II project of TCL in Gujarat. The company is currently in the project stage and commercial operation is expected within a year. The installed capacities are expected to be 90,000 MT for Phthalic Anhydride (PAN) and 10,000 MT for Fumaric Acid at a cost of ~Rs.540 crore. The project is funded by a debt of Rs. 405 crore (of which Rs. 355 crore is sanctioned and the company has received in-principle sanction for the balance Rs. 50 crore) and the balance is equity contribution from TCL. The company is a part of the Thirumalai Group, which has business interests in chemicals, surfactants, pigments and education.

TCL started its operations in 1974 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 Malic 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) – Not applicable as it is a project stage entity

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2021	Date & rating in FY2022	Date & rating in FY2023
					Aug 30, 2023	-	-	-
1	**Term loans**	Long term	355.0	25.00	**[ICRA]BBB+ (Stable)**	-	-	-
2	**Unallocated limits**	Long term	50.0	-	**[ICRA]BBB+ (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term fund-based – Unallocated limits	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 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**	FY2023	NA	Q4FY2031	100.00	[ICRA]BBB+(Stable)
-	**Term loan-II**	FY2023	NA	Q1FY2032	100.00	[ICRA]BBB+(Stable)
-	**Term loan-III**	FY2023	NA	Q2FY2032	155.00	[ICRA]BBB+(Stable)
-	**Unallocated limits**	NA	NA	NA	50.00	[ICRA]BBB+(Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis - NA

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