Travancore Cochin Chemicals Limited

January 05, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Working Capital Facilities	20.0	20.0	[ICRA]B+ (Stable); Upgraded from [ICRA]B
Fund based-Bill Discounting	1.0	1.0	[ICRA]A4; Reaffirmed
Non-fund based-LC/BG	9.0	9.0	[ICRA]A4; Reaffirmed
Total	**30.0**	**30.0**	

Rating action

ICRA has upgraded the long-term rating from [ICRA]B (pronounced ICRA B)[1] to [CRA]B+ (pronounced ICRA B plus) for the Rs. 20.0-crore[2] fund-based working-capital facilities of Travancore Cochin Chemicals Limited (TCCL). ICRA has also reaffirmed the short-term rating at [ICRA]A4 (pronounced ICRA A four) for the Rs. 1.0-crore fund-based facilities and the Rs. 9.00-crore non-fund based bank facilities of TCCL. The outlook on the long-term rating is 'Stable'.

Rationale

The upgrade in ratings takes into account the healthy revenue growth in FY2017 and 7M FY2018 due to increased off-take of chloro-alkali products from its key customers. The ratings draw comfort from the company's established track record in the chloro-alkali business in Kerala and its position as the sole caustic-soda manufacturer with a reputed customer profile and financial support from the Government of Kerala (GoKL), arising from its status as a state-level Public Sector Undertaking. The ratings, also 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. ICRA also notes that ongoing dispute resolution with the Kerala State Electricity Board (KSEB) over the power charges payable and availability of open access of power, which is expected to support the profitability and reduce its liabilities. The ratings, however, remain constrained by continuing adverse financial position with the operating loss, weak capital structure and coverage indicators in FY2017, despite signs of improvement in 7M FY2018. The ratings also factor in the increasing employee costs and TCCL's logistical disadvantage with respect to procurement of salt, the key raw material, from Gujarat. The ratings are also constrained by the inherent cyclicality 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. Going forward, TCCL's ability to maintain healthy revenue growth while improving profitability, and to resolve the KSEB's issue, will be the key rating sensitivities.

---

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

[2] *100 lakh = 1 crore = 10 million*

Outlook: Stable

ICRA believes TCCL will continue to benefit from the established track record of the company 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 substantial and sustainable growth in profitability and revenues, and resolution of the KSEB's dispute results in reduction in its liabilities, strengthening the overall financial risk profile. Conversely, the outlook may be revised to 'Negative' if revenues decline, profitability fells or the envisaged capex results in lower-than-expected accruals or anything that could adversely impact the liquidity position of the company.

Key rating drivers

Credit strengths

Established track record of the company in the chloro-alkali business – Incorporated in 1949, TCCL is the sole caustic soda manufacturer in Kerala. Also, TCCL receives significant financial support from the government for being a state-level PSU (wholly-owned by GoKL and its entities). TCCL manufactures basic industrial chemicals viz., caustic soda and chlorine products. The company's manufacturing plant is located at Udyogamandal, Cochin with a licensed capacity to manufacture 175 tpd of caustic soda, using membrane-cell technology. The sale of caustic soda contributes to a major portion (~80% in FY2017) of the revenues, followed by hydrochloric acid and sodium chlorate.

Healthy revenue growth in FY2017 with improved off-take by key customers – Kerala hosts various industrial houses with high requirement for caustic soda and chlorine. TCCL, being the sole manufacturer chlor-alkali in Kerala,manufacturer, is favourably located to benefit from the demand in Kerala. With increased off-take by key customers, and supported by improved sales realisations, the operating income of the company increased from Rs. 166.5 crore in FY2016 to Rs. 200.3 crore in FY2017 (~20% growth y-o-y), which further improved to Rs. 133.3 crore in 7M FY2018 (~15% annualized growth). TCCL has established good relationship with its key customers like Cochin Minerals & Rutile Limited, Kerala Minerals & Metals Limited and Nitta Gelatin India Limited (NGIL), resulting in repeat orders over the years.

Resolution of dispute with KSEB – With the arbitration of GoKL, the resolution of the long pending dispute with KSEB over the power charges payable in ongoing and TCCL has settled the due partly by cash and the remaining will be settled through the transfer of land to KSEB. The production of caustic soda is power-intensive in nature and the availability of power at competitive rates is vital for the viability of operations. On an average, caustic soda production, employing membrane cell process, requires ~2,650 KWH/MT. With the resolution of the dispute, TCCL has open access to power, which is expected to result in reduction of power expenses.

Credit challenges

Weak financial risk profile – TCCL's financial profile is weak with operating losses in FY2017 on account of payment of arrears due to employee pay revision due since FY2015. The capital structure remains stretched with a gearing of 23.7 times due to low net worth and weak coverage indicators as on March, 31, 2017. However, the capital structure and coverage indicators improved in 7M FY2018 due to improved profitability and repayment of term loans.

Inherent cyclicality in chloro-alkali industry – TCCL's revenues and profitability are exposed to cyclicality 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.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

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

In FY2017, the company reported a net profit of Rs. 5.6 crore on an operating income of Rs. 200.3 crore compared to a net loss of Rs. 7.3 crore on an operating income of Rs. 166.5 crore in the previous year.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	166.5	200.3
PAT (Rs. crore)	-7.3	5.6
OPBDIT/ OI (%)	0.9%	-3.3%
RoCE (%)	0.3%	25.5%
Total Debt/ TNW (times)	-13.8	23.7
Total Debt/ OPBDIT (times)	39.3	-5.5
Interest coverage (times)	0.2	-1.4
NWC/ OI (%)	-12.0%	-30.9%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Jan 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2017 Dec 2016	Date & Rating in FY2016 Feb 2016	Date & Rating in FY2015 Sep 2014
1	Cash Credit	Long Term	20.0	**20.0**	**[ICRA]B+ (Stable)**	**[ICRA]B**	**[ICRA]B**	**[ICRA]B**
2	Bill Discounting	Short Term	1.0	**1.0**	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**
3	Letter of Credit/ Bank Guarantee	Short Term	9.0	**9.0**	**[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	20.00	[ICRA]B+ (Stable)
NA	Bill Discounting	NA	NA	NA	1.00	[ICRA]A4
NA	Letter of credit/ Bank Guarantee	NA	NA	NA	9.00	[ICRA]A4

Source: TCCL

ANALYST CONTACTS

K Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

R Srinivasan
+91 44 4596 4315
r.srinivasan@icraindia.com

Ankita Vasa
+91 80 4922 5513
ankita.sheth@icraindia.com

Vinay S V
+91 80 4922 5514
vinay.sv@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

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

Helpline for business queries:

+91-124-2866928 (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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999