

July 03, 2020

## Punjab Alkalies & Chemicals Limited: Update on material event; ratings and outlook revised

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ CC	5.27	5.27	[ICRA]BB- (Negative); Revised from [ICRA]BB (Stable)
Short Term – Non-fund Based	2.05	2.05	[ICRA]A4; Revised from [ICRA]A4+
Long Term / Short Term - Unallocated	32.68	32.68	[ICRA]BB- (Negative)/[ICRA]A4; Revised from [ICRA]BB (Stable)/[ICRA]A4+
<b>Total</b>	<b>40.00</b>	<b>40.00</b>	

\*Instrument details are provided in Annexure-1

### Material Event

Punjab Alkalies & Chemicals Limited (PACL) has announced its quarterly and yearly results on June 24, 2020. The company reported an operating income of Rs. 65.4 crore with OPBITDA<sup>1</sup> of Rs. 1.2 crore and net loss of Rs. 1.7 crore in Q4 FY2020 against operating income of Rs. 89.9 crore with OPBITDA of Rs. 22.9 crore and net profit of Rs. 19.8 crore in the same period, prior year. The company had reported an operating income of Rs. 59.4 crore with operating loss of Rs. 2.3 crore and net loss of Rs. 0.1 crore in Q3 FY2020.

### Impact of the Material Event

ICRA has revised the long-term rating on the Rs 40 crore bank facilities of PACL to [ICRA]BB- (pronounced ICRA double B minus) from [ICRA]BB (pronounced ICRA double B) and has revised the short-term rating to [ICRA]A4 (pronounced ICRA A four) from [ICRA]A4+ (pronounced ICRA A four plus). The outlook on the long-term rating has been revised to Negative from Stable.

### Rationale

The revision in the ratings is driven by the weak performance of the company due to softer caustic soda prices and increased power cost. The Electro Chemical Unit (ECU) realisations for the chlor-alkali segment have witnessed significant moderation in FY2020 owing to softening global and domestic caustic soda prices, on account of subdued demand. As a result of the muted demand, which has been exacerbated by the impact of the covid-19 pandemic, the company's cash flows are expected to moderate significantly in FY2021. The ratings are also constrained by the susceptibility of PACL's profitability to adverse movement in power costs, in the absence of a captive power plant. The ratings also take into consideration the risks associated with the stabilisation of the

<sup>1</sup> OPBDITA = Operating Profit Before Depreciation, Interest, Tax and Amortisation

recently concluded capex. Further, ICRA factors in the vulnerability of the company's profitability to the inherent cyclicality in the chlor-alkali industry and the regulatory environment.

The ratings take into account the company's established track record in the chloro-alkali business along with its experienced and professional management. The ratings also take comfort from the locational advantage the company derives from its proximity to end users as well as to the Bhakra Left Bank Power Generating Station providing uninterrupted power supply and River Sutlej as a continuous water source, both of which are critical manufacturing inputs.

The Negative outlook on the [ICRA]BB- rating reflects the likely pressure on the company's turnover and profitability on account of continued subdued demand conditions and softening caustic soda prices, which is like to impact the company's performance.

The company has fully redeemed 4,06,000 secured redeemable non-convertible debentures of Rs. 100 each along with the interest issued to CDR lenders.

PACL has sought extension in redemption date of 27,69,200 secured fully convertible debentures of Rs. 100 each issued to CDR lenders, from July 1, 2020 to January 1, 2021 which has been approved by the lead bank and is in process with other lenders.

## Key rating drivers

### Credit strengths

**Operational track record of over three decades in the caustic soda industry** – PACL has more than three decades of track record in manufacturing caustic soda and other chlor-alkali chemicals. The management has developed healthy relationships with its customers and suppliers over the period.

**Locational advantage** – PACL has locational advantage owing to easy access to end users in the vicinity as well as close proximity to Bhakra Left Bank Power Generating Station providing uninterrupted power supply and River Sutlej as a continuous water source, both of which are critical inputs for the smooth functioning of plant.

### Credit challenges

**Subdued demand and weak financial risk profile in FY2020** – The moderation in caustic soda prices and subdued demand weighed down the overall performance of the company. The operating income of the company witnessed a 23% Year-on-Year decline in FY2020, along with moderation in profitability as reflected by net profit of Rs. 8.8 crore in FY2020 vis-à-vis Rs. 55.9 crore in FY2019.

**Risk associated with stabilisation of plant modernisation** – The company faces risk associated with the execution and stabilisation of the project as per expected operating parameters. PACL is modernising its caustic soda plant by replacing its existing Membrane Cell Plant Generation-3 electrolyzers with Generation-6 electrolyzers.

**Vulnerability to fluctuations in caustic soda prices and regulatory risk** – Profitability of caustic manufacturing companies depends on ECU prices. Cyclical downturns or adverse variability in demand-supply balance, may drag down realisation for caustic soda players.

**Profitability determined by cost of power, as production of caustic soda is energy intensive in nature** – Power is the major cost of production for the chlor-alkali industry. Given that energy is the major cost of production,

companies having captive power plants are at an advantage. However, PACL's unit is dependent on Punjab State Power Corporation Limited (PSPCL) and open market sources. Any upward revision in the power tariff by PSPCL may adversely impact PACL's profitability.

### Liquidity position: Stretched

PACL's liquidity position is expected to remain **stretched** owing to the large scheduled fully convertible debentures (FCDs) repayment in FY2021, which are unlikely to be adequately supported by the company's estimated cash accruals. Accordingly, the company remains reliant on external sources of funds for meeting its scheduled repayments. PACL has no term loans from banks as on March 31, 2020 and the utilisation of working capital limits was nil in the 12-month period that ended in March 2020. The company has FCDs<sup>2</sup> amounting to Rs. 27.7 crore outstanding as on date.

### Rating sensitivities

**Positive triggers** – A rating upgrade is unlikely in the near term, however, the outlook on the long-term rating may be revised to Stable if there is recovery in demand which, together with improvement in the cost structure aided by reduction in power consumption due to modernisation of the plant, translates into improved profitability of the company.

**Negative triggers** – A weakness in demand or material decline in ECU realization may adversely impact the performance of the company, triggering a rating downgrade. Further, non-timely redemption of secured fully convertible debentures will be a key monitorable.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating methodology for entities in the Chemical industry</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on standalone financial profile of the company

### About the company

Incorporated in December 1975, PACL is a public limited company promoted by the Punjab State Industrial Development Corporation Limited (PSIDC), a Company wholly-owned by the Punjab Government, which holds a 33.49% stake. PACL commenced operations in January 1984 and has a manufacturing unit at Naya Nangal, Ropar, Punjab spread over an area of 88.7 acres with a total installed capacity of 99,000 TPA (300 TPD) of caustic soda. Caustic soda is widely used in industries like soap, paper, dyes, chemicals and plastic. The other products like liquid chlorine, hydrochloric acid, sodium hypochlorite, etc. are the by-products of the manufacturing process.

<sup>2</sup>PACL plans to redeem the fully convertible debentures (FCDs) instead of conversion of these FCDs into Equity Shares. PACL has sought extension in redemption date of 27,69,200 secured FCDs of Rs. 100 each issued to CDR lenders, from July 1, 2020 to January 1, 2021 which has been approved by the lead bank and is in process with other lenders.

### Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	377.4	290.4
PAT (Rs. crore)	55.9	8.8
OPBDIT/OI (%)	21.2%	5.5%
PAT/OI (%)	14.8%	3.0%
Total Outside Liabilities/Tangible Net Worth (times)	5.7	4.9
Total Debt/OPBDIT (times)	0.3	2.0
Interest Coverage (times)	9.9	3.1

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					3-Jul-2020	6-Sep-2019	-	-
1	Cash Credit	Long Term	5.27		[ICRA]BB- (Negative)	[ICRA]BB (Stable)	-	-
2	Non-fund Based	Short Term	2.05		[ICRA]A4	[ICRA]A4+	-	-
3	Unallocated	Long Term/ Short Term	32.68		[ICRA]BB- (Negative)/[ICRA]A4	[ICRA]BB (Stable)/[ICRA]A4+	-	-

Amount in Rs. crore

### 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 [click here](#)

### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	5.27	[ICRA]BB- (Negative)
NA	Non-fund Based	NA	NA	NA	2.05	[ICRA]A4
NA	Unallocated	NA	NA	NA	32.68	[ICRA]BB- (Negative)/[ICRA]A4

Source: Punjab Alkalies & Chemicals Limited

### Annexure-2: List of entities considered for consolidated analysis: Not applicable

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