January 19, 2024

Tanfac Industries Limited: Ratings upgraded to [ICRA]A(Stable)/[ICRA]A1; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits – Working capital facilities	20.0	20.0	[ICRA]A; upgraded from [ICRA]A-; outlook revised to Stable from Positive
Non-fund based facilities – Working capital facilities	68.0	68.0	[ICRA]A1; upgraded from [ICRA]A2+
Short-term fund-based/Non-fund based – Standby line of credit	2.0	2.0	[ICRA]A1; upgraded from [ICRA]A2+
Total	**90.0**	**90.0**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in Tanfac Industries Limited's (TIL) ratings reflects the demonstrated improvement in its operational and financial risk profiles in the recent past and expectations of this trend to sustain going forward, driven by improvement in the volumes and realisations of hydrofluoric acid and the strong operational linkages with Anupam Rasayan India Limited (ARIL), leading to higher offtake of TIL's products.

The company's financial profile has strengthened over the years with healthy profitability, steady annual cash accruals from business operations and limited dependence on debt. The capital structure is strong owing to its debt-free status and the debt coverage indicators remain healthy. The operating profitability, though moderated from FY2022 levels, remained healthy in FY2023 and H1 FY2024, aided by TIL's ability to pass on the volatile raw material prices to the end consumers.

TIL, being in the fluorination business, is strategically important to ARIL and offers increased opportunities for forward integration. The revenue and profitability are expected to remain strong, given the focus on expanding the capacities for high-margin segments, i.e., hydrofluoric acid (HF), a healthy demand for products and improvement in the cost structure. The ratings also factor in TIL's established track record of over three decades in manufacturing fluorochemicals with presence in diversified product segments.

The ratings are, however, constrained by TIL's limited pricing flexibility in a highly competitive market and the vulnerability to the volatility in spread between global products and raw material prices. The demand cyclicality in end-user industries, besides the forex rate volatility and adverse changes in custom duties and environmental policies, also remain credit concerns. ICRA notes the hazardous nature of the company's primary product, HF, which could result in stringent transport norms, going forward. However, the company has the necessary transport permits from the Petroleum and Explosives Safety Organisation (PESO). Moreover, presence in the specialty fluorides segment, which enables captive usage of a certain quantity of HF produced, mitigates the risk to a certain extent.

The Stable outlook on TIL's rating reflects ICRA's opinion that the company will continue to benefit from its established position as a fluorochemical manufacturer and will continue to benefit from the synergies with ARIL.

Key rating drivers and their description

Credit strengths

Healthy financial risk profile – The company's financial profile has strengthened over the years with improved profitability, steady annual cash accruals from business operations and limited dependence on debt. The revenues improved in FY2023 and H1 FY2024 compared to the previous fiscals owing to increased realisations and volumes. Going forward, with the company undertaking capex to double the HF capacity, the higher volumes are expected to further boost revenues and maintain healthy margins for the company. The capital structure is strong owing to its debt-free status and the debt coverage indicators remain healthy. The operating profitability remained healthy at 21.2% in H1 FY2024 with significant increase in HF sales realisation and volumes over the previous fiscals. Going forward, the revenue and profitability are expected to remain strong with improved HF capacity as well as its utilisation, a healthy demand for products and improvement in cost structure.

Long track record in fluorochemical manufacturing with presence in diversified product segments – TIL has an extensive track record of more than three decades in manufacturing fluorochemical products. The company is present in diversified product segments by manufacturing HF, aluminium fluoride, sulphuric acid and speciality fluorides.

Part of Anupam Rasayan India Limited Group – TIL is a joint sector company between ARIL and Tamil Nadu Industrial Development Corporation (TIDCO). Despite having only a ~26% stake in TIL, as per the Government of India guideline for joint sector undertakings, ARIL has management control in the company. TIL, being in the fluorination business, would continue to be strategically important to ARIL, offering opportunities for forward integration.

Credit challenges

Revenue and profitability remain susceptible to market disruptions, end-user cyclicality and resultant price volatility – TIL faces competition from domestic manufacturers as well as from imports, especially from China, which limits its pricing power. Being commodity chemicals, the prices of HF, ALF and H_2SO_4 are exposed to the demand-supply scenario and face considerable price volatility. In addition, the demand and prices of the products are also susceptible to the cyclicality inherent to the end-user industries. Hence, the company's profitability is exposed to volatility in the spread between global products and raw material prices. However, the cost control measures undertaken by the company over the years have mitigated the impact to some extent. While the profitability is also exposed to forex fluctuations, the company has a hedging policy in place, limiting the adverse impact.

Increasing environmental scrutiny on transport of HF – TIL is exposed to increasing environmental scrutiny on the transport of HF and any adverse changes in environmental policies will be a credit challenge. While the regulations related to the transportation of HF is expected to get more stringent, the company has a valid transportation permit from PESO, mitigating the risk in the near term.

Environmental and Social Risks

The industry is exposed to the risk of tightening regulatory norms for the production, handling, disposal and transportation of chemical products, given the safety and environmental health-related concerns associated with chemicals. TIL also remains exposed to the impact of changes in environmental norms for the treatment of residual discharge/waste and indirect exposure to physical climate risks. Further, in the event of accidents, the litigation risks and liabilities for clean-up could be high. While TIL has a demonstrated track record of running its operations safely, the nature of the risk (being low frequency-high impact) weighs on its rating.

Further, operating responsibly is an imperative and instances of non-compliance with environmental, health and safety norms could have an adverse impact on the local community which could manifest in the form of protests, constraining the ability to operate or expand the capacity. TIL hasn't experienced/reported any incident suggestive of safety lapses in its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be a key monitorable.

Liquidity position: Strong

The liquidity is expected to remain strong on the back of steady cash flow from operations, healthy unencumbered cash and bank balance of ~Rs. 78 crore as on September 30, 2023, no term debt repayment obligations and availability of unutilised working capital limits. The company has Rs. 100-crore capex plans in FY2024 and FY2025 to expand its HF capacity. The capex will be majorly funded from existing cash & cash equivalents and internal accruals.

Rating sensitivities

Positive triggers – ICRA could upgrade the ratings if TIL exhibits a sustained improvement in its scale of operations and profitability while maintaining healthy capital structure and coverage indicators. Further, the ratings could be upgraded if the credit profile of TIL's parent, ARIL, strengthens.

Negative triggers – ICRA could downgrade the ratings if there is a sustained decline in the top line and profitability, or if there is any stretch in working capital cycle, or any larger-than-expected debt-funded capex impacting liquidity. Further, any disruption in sourcing key imported raw materials, or any adverse changes in trade protection measures and duty structure will remain the sensitivity factors. A specific credit metric for downgrade include TD/OPBDITA of more than 2 times on a sustained basis. Any weakening of linkages between Tanfac and its parent - ARIL - or moderation in the credit profile of the parent could also exert a rating pressure.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group support	Parent/Group Company: Anupam Rasayan India Limited The ratings draw comfort from the likelihood of support from the parent company for the rated entity, should there be a need, given the strategic importance of the rated entity to the parent group
Consolidation/Standalone	The ratings are based on the standalone financial statements of Tanfac Industries Limited

About the company

Tanfac Industries Limited (TIL) was incorporated in 1974 by Tamil Nadu Industrial Development Corporation (TIDCO) as a joint sector company, along with Mr. L. Narayanan Chettiar. Mr. Chettiar later withdrew from the project and the Aditya Birla Group became the co-promoter with a 25% stake in 1980. Subsequently, in March 2022, the entire stake of the Aditya Birla Group was sold to Anupam Rasayan India Limited (ARIL).

On March 11, 2022, ARIL acquired a 24.96% stake in TIL from the Aditya Birla Group, which subsequently triggered an open offer wherein and additional 0.83% stake was acquired. The company is now a joint venture (JV) between TIDCO and ARIL; the management control vests with ARIL.

TIL mainly produces hydrofluoric acid (HF) and aluminium fluoride (ALF). It started as a single product company manufacturing only ALF but started producing HF from 1989. HF, in its concentrated form, anhydrous hydrofluoric acid (AHF), is used to manufacture refrigerant gases, teflon and linear alkyl benzene (LAB). HFA, which is diluted hydrofluoric acid (DHF), is used in alloy steel mills for pickling metal, in the glass industry and printed circuit boards, etc. ALF is used as a flux in reducing the melting point of alumina in the electrolytic process of manufacturing aluminium. TIL also produces sulphuric acid (H_2SO_4), which is used to manufacture HF, and also sells it in the open market. In addition, it manufactures specialty fluorides that are sold to diverse customers such as alloy manufacturers, pharmaceutical and agrochemical companies. At present, the company has an ALF capacity of 15,600 metric tonnes per annum (MTPA), 14,750 MTPA of AHF, 82,500 MTPA of sulphuric acid and 8,400 MTPA of specialty fluorides. The company is undertaking a capex of Rs. 100 crore to double its HF capacity.

Key financial indicators (audited)

TIL	FY2022	FY2023	H1 FY2024
Operating income	320.2	374.9	187.6
PAT	53.3	56.1	29.8
OPBDIT/OI	23.5%	19.9%	21.2%
PAT/OI	16.6%	15.0%	15.9%
Total outside liabilities/Tangible net worth (times)	0.4	0.4	0.3
Total debt/OPBDIT (times)	0.00	0.00	0.00
Interest coverage (times)	73.7	84.5	90.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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 (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 FY2023		Date & rating in FY2022		Date & rating in FY2021	
					January 19, 2024	Mar 30, 2023	Dec 06, 2022	February 10, 2022	November 26, 2021	Aug 21, 2020	
1	Fund-based limits	Long Term	20.00	-	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A-(Positive)	[ICRA]A-&	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	
2	Non fund-based facilities	Short Term	68.00	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+&	[ICRA]A2+	[ICRA]A2	
3	Fund-based /Non-fund based – Standby line of credit	Short Term	2.00	-	[ICRA]A1	[ICRA]A2+	-	-	-	-	
3	Fund based/Non-fund based – Unallocated limits	Long Term/Short Term	0.0	-		-	[ICRA]A- (Positive)/ICRA]A2+	[ICRA]A- &/[ICRA]A2+&	[ICRA]A- (Stable)/ICRA]A2+	[ICRA]BBB+(Stable)/ [ICRA]A2	

& - Placed on watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based limits	Simple
Short-term non-fund based limits	Very Simple
Short-term fund-based/non-fund based limits	Very Simple

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
NA	**Long-term fund-based limits**	NA	NA	NA	20.0	[ICRA]A(Stable)
NA	**Short-term non-fund based facilities**	NA	NA	NA	68.0	[ICRA]A1
NA	**Short term – Fund-based/non-fund based – Standby line of credit**	NA	NA	NA	2.0	[ICRA]A1

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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.

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