

Tanfac Industries Limited

March 29, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	25.00	25.00	[ICRA]BBB+ (Stable); Upgraded from [ICRA]BBB- (Stable);
Non-fund Based-Working Capital Facilities	55.00	55.00	[ICRA]A2; Upgraded from [ICRA]A3
Long-term/Short-term fund-based/non-fund based, unallocated facilities	0.00	10.00	[ICRA]BBB+(Stable)/[ICRA]A2; Upgraded from [ICRA]BBB- (Stable)/[ICRA]A3
Total	80.00	90.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings upgrade considers the improvement in financial profile of the company during FY2018 and 9M FY2019, reflected by growth in revenue and margin improvement, driven by increase in product prices and expansion in product-raw material spreads in aluminium fluoride (ALF) and hydrofluoric acid (HF) segment, healthy improvement in performance of the sulphuric acid segment and benefit of cost saving measures undertaken by the company. The HF and ALF segments have benefited from supply correction in China, a key global producer and consumer of ALF and HF due to increased environmental scrutiny, leading to improved profitability in this segment, even though the key raw materials like fluorspar and sulphur have also witnessed price increase due to constrained global supply. The improvement in performance of ALF segment was however constrained by TANFAC's ability to improve capacity utilization, which remained at modest levels due to ageing of plant. ICRA notes that the company is planning replacement capex of ~Rs. 12 crore in FY2020, which will result in improved capacity utilization. The sulphuric acid segment also witnessed healthy improvement in performance benefiting from closure of a major producer in the region. Further, the company also benefited from shift to usage of lower cost molten sulphur and other cost control measures. In recent years the company has also benefited from improving sales from value-added products like photovoltaic HF and increased revenue from margin accretive job-work undertaken by the company (though they remain modest at present). Due to the improved profitability witnessed in recent years, the company has repaid the inter corporate deposits (ICD) availed from group entities in current fiscal, resulting in improved capital structure and coverage indicators. The working capital intensity also remains moderate for the company with NWC/OI of 8.4% in FY2018. While, the replacement capex will be partly debt funded, the capital structure is expected to remain healthy.

The ratings also favourably consider the longstanding track record of the company in manufacturing fluorochemicals and the benefits arising from being part of the Aditya Birla Group. The company enjoyed financial support from the Group in the form of interest-bearing ICD till FY2018. The company also benefit from preference shares infused by Group company in FY2015 and enjoys a better financial flexibility with lenders

The ratings are, however, constrained by the company's moderate scale of operations, limited pricing flexibility in a highly competitive market, and vulnerability to volatility in spread between global product and raw material prices. The demand cyclicality in end-user industries besides the forex rate volatility and changes in Government policies also remain credit concerns.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that company's credit profile will remain healthy in the near to medium term, aided by favourable market conditions. The outlook will be revised to Positive, if there is further robust growth in revenues supported by improved capacity utilisation and sustained high margin trend leading to stable/improved capital structure despite the planned capex. The outlook may be revised to Negative if the revenues and profitability are lower than expected, or if any stretch in working capital cycle or higher-than-anticipated capital expenditure weakens liquidity.

Key rating drivers

Credit strengths

Long track record in fluorochemical manufacturing – TIL has an extensive track record of manufacturing fluorochemical products for more than three decades.

Improvement in financial profile and capital structure in recent fiscals – The company witnessed robust sales growth and healthy margin improvement in FY2018 and 9M FY2019. While, TIL witnessed revenue growth of 28.1% and 46.5% during FY2018 and 9M FY2019 respectively, the OPM and NPM improved to 13.1% (FY17: 11.5%) and 6.0% (FY17: 3.0%) in FY2018 and 26.2% and 22.4% in 9M FY2018. The improvement was aided by higher realisation and improvement in product -raw material spreads, even though there was increase in raw material prices during the period. The improvement in performance has been aided by supply correction in China for ALF and HF and key raw material like Fluorspar due to increased environmental scrutiny. Further, the improvement in sulphuric acid segment due to closure of major producer in the region- Sterlite Copper, also aided in overall financial performance improvement. On the back of improved profitability, the company has repaid the ICD availed from group entities, which has led to improvement in capital structure and coverage indicators. The company reported gearing and interest coverage of 3.5 time (adjusted gearing 2.2¹ time) and 3.2 time as on March 31, 2018 and 0.4 time (adjusted gearing 0.3 time) and 15.1 time as on September 30, 2018. Going forward, while the company plans to incur some debt funded capex, the capital structure is expected to remain healthy.

Increased product diversification in recent years – TIL has focused on product diversification and margin accretive revenue streams in the recent years, which has resulted in increased share of speciality fluorides in the last two-three years (revenue share, nevertheless, remained moderate owing to increased revenue contribution from major segment). TIL is also focusing on improvement in the share of value-added products like photovoltaic hydrofluoric acid and incremental revenue streams from undertaking contract manufacturing for products like poly aluminium chloride (PAC) and purified acetic acid, which though remained modest in FY2018 and in current fiscal, are margin accretive in nature and provide diversification benefit.

Support from Aditya Birla Group – The company is a JV between Aditya Birla Group and TIDCO, with the former having only 25% stake but vests the management control. TIL obtained financial support from the Group in the form of interest-bearing ICDs till FY2018 which the company repaid in current fiscal. The Group had also infused Rs. 5.0 crore as redeemable cumulative non-convertible preference shares in March 2015. Further, being part of the Aditya Birla Group, also enhances TIL's financial flexibility with its lenders.

Credit challenges

Moderate scale of operations, limited pricing flexibility and vulnerability to exogenous factors – TIL has moderate scale of operations, with operating income in the range of Rs 120- Rs162 crore during FY15-FY18. TIL faces competition from domestic manufacturers as well as imports, especially from China, which limits its pricing power and exposes its profitability to volatility in spread between global product and raw material prices. The demand cyclicality in end-user industries, forex rate volatility and changes in Government policies remain credit challenges.

¹ As per Ind AS the company has reclassified the redeemable preference capital as part of debt, however the gearing figure is calculated considering it as part of net worth to be comparable to previous period

Liquidity Position:

TIL's free cash flows have witnessed improvement in recent period, following improvement in profitability and modest capital expenditure. Going forward, despite debt funded capex plans in FY2020, the liquidity position is expected to be comfortable aided by expected healthy cash accruals and undrawn line of credit. Further, the flexibility arising from being part of the Aditya Birla Group also provides comfort on the liquidity front.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Chemical Industry
Parent/Group Support	Parent/Group Company: Aditya Birla Group The ratings assigned to TIL factors in the flexibility with lenders arising from being part of the Aditya Birla Group
Consolidation / Standalone	The rating is based on standalone financial statements

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. While the company is a joint venture between TIDCO and the Aditya Birla Group, the management control vests with the Aditya Birla Group. TIL's principal products are hydrofluoric acid (HF) and aluminium fluoride (ALF). It started as a single product company manufacturing only ALF, but started producing HF in 1989. HF in its concentrated form, anhydrous hydrofluoric acid (AHF), is used in the manufacture of refrigerant gases (like freon), teflon and linear alkyl benzene (LAB). HFA, in a diluted form, diluted hydrofluoric acid (DHF), is used in alloy steel mills for use in pickling of metal, glass industry, 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 (H₂SO₄) which is used for manufacturing HF and also sales it to open market. Besides, it also manufactures speciality fluorides which are sold to diverse customers such as alloy manufacturers, pharmaceutical and agrochemical companies. As of FY2017, the company had an ALF-capacity of 15,600 metric tonne per annum (MTPA), 15,600 of AHF, 79,600 MTPA of sulphuric acid and 8,400 MTPA of speciality fluorides.

In FY2018, the company reported a net profit of Rs. 9.7 crore on an operating income of Rs. 161.9 crore, as compared to a net profit of Rs. 3.3 crore on an operating income of Rs. 126.4 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018	H1 FY2019*
Operating Income (Rs. crore)	126.4	161.9	110.7
PAT (Rs. crore)	3.3	9.7	24.8
OPBDIT/OI (%)	11.5%	13.1%	26.2%
RoCE (%)	17.8%	29.1%	98.2%
Total Debt/TNW (times)	16.6	3.4	0.4
Total Debt/OPBDIT (times)	3.7	2.0	0.3
Interest coverage (times)	2.0	3.2	15.1

*Provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating March 2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Fund-based	Long-Term	25.00	25.00	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Negative)
2 Non-fund based	Short-Term	55.00	55.00	[ICRA]A2	[ICRA]A3	[ICRA]A4+	[ICRA]A4+
3 Fund-based/Non-fund based, Unallocated	Long-term/Short Term	10.00	10.00	[ICRA]BBB+ (Stable)/[ICRA]A2	-	-	-

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	Fund-based	NA	NA	NA	25.00	[ICRA]BBB+(Stable)
NA	Non-fund based	NA	NA	NA	55.00	[ICRA]A2
NA	Fund-based/Non-fund based, Unallocated	NA	NA	NA	10.00	[ICRA]BBB+(Stable) / [ICRA]A2

Source: Tanfac Industries Limited

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