

September 06, 2019

Punjab Alkalies & Chemicals Limited: Ratings assigned

Summary of rating action

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

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings take into account the healthy growth in Punjab Alkalies & Chemicals Limited's (PACL) profitability and cash accruals in FY2019, supported by improved demand for chloro-alkali products and increase in the combined average realisation per electro-chemical unit (ECU). This coupled with the decline in power costs led to an improvement in operating margins. The ratings draw comfort from the company's established track record in the chloro-alkali business along with its experienced and professional management. The ratings also take into account the locational advantage owing to PACL's proximity to end users as well as some caustic soda manufacturers in northern India, which has helped it in maintaining business relationship with reputed customers.

The rating is constrained by the susceptibility of PACL's profitability to adverse movement in power cost in the absence of a captive power plant. Further, ICRA factors in the vulnerability of the company's profitability to the inherent cyclicity in the chlor-alkali industry and Government regulations. Going forward, PACL's ability to conclude the capex within the budgeted cost and time, and achieve healthy revenue growth supported by enhanced capacity, while maintaining healthy profitability would be the key rating sensitivities.

Key rating drivers and their description

Credit strengths

Experience of over three decades in caustic soda industry – PACL has more than three decades of experience in manufacturing caustic soda and other chlor-alkali chemicals. The management has developed healthy relationship with its customers and suppliers over the period.

Healthy profitability margins in FY2019 – PACL recorded a healthy revenue growth in FY2019 (11.5% YoY), driven by sharp increase in caustic soda prices due to improved domestic demand and reduced global supplies. With reduction in power cost and better sales realisation, the operating profitability improved to 21.2% in FY2019 (against 10.0% in FY2018) resulting in healthy cash accruals. ICRA expects profitability to be sustainable in medium term with basic power rate being fixed at Rs. 5 per unit for 5 years w.e.f January 2018.

Credit challenges

Risk associated with timely completion and stabilisation of plant modernisation – The company faces risk associated with the timely completion, execution and stabilisation of the project as per expected operating parameters. PACL is modernising its caustic soda plant by replacing its existing 200 tonne per day (TPD) Membrane Cell Plant (Generation-3 electrolyzers) with 300 TPD Membrane Cell Plant (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: Adequate

PACL has no term loans from bank as on March 31, 2019. As a result, its repayment burden remains nil. Its fund flow and free cash flows were positive in FY2019 and the liquidity position was **adequate** with utilisation of working capital limits remaining nil in the past 12-month period that ended in May 2019. The company has FCDs¹ and NCDs² amounting to Rs. 27.7 crore and Rs. 4.1 crore, respectively, outstanding as on March 31, 2019.

Rating sensitivities

Positive triggers – ICRA could upgrade PACL's rating if the company demonstrates a sustained cash flow generation similar to FY2019 levels in near to medium term. Further, improvement in the cost structure aided by reduction in power cost due to modernisation of plant.

Negative triggers – Negative pressure on PACL's rating could arise if material fall in ECU realisation affects the profitability and cash accruals or a material debt-funded capex leads to moderation in credit metrics. Failure to complete plant modernisation without time and cost overrun and/or weakening in interest coverage ratio to below 2.5 times could exert negative pressure on the company's ratings.

¹The FCDs shall be convertible into equity shares of the company on July 1, 2020 at a price which shall be determined in accordance with SEBI ICDR Regulations, 2009 (as amended) and PACL shall have the first right of refusal for redemption before conversion of these FCDs into Equity Shares.

²The NCDs will be redeemed at par in six equal monthly instalments from July 1, 2020.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
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 wholly-owned Punjab Government Company, holding 33.49% equity shares in it. 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. The company mainly manufactures caustic soda which 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.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	338.6	377.4
PAT (Rs. crore)	-4.8	55.9
OPBDIT/OI (%)	10.0%	21.2%
RoCE (%)	-268.9%	600.1%
Total Outside Liabilities/Tangible Net Worth (times)	-5.9	5.7
Total Debt/OPBDIT (times)	0.8	0.3
Interest Coverage (times)	1.7	9.9
DSCR	1.2	10.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					6-Sep-2019			
1	Cash Credit	Long Term	5.27		[ICRA]BB (Stable)	-	-	-
2	Non-fund Based	Short Term	2.05		[ICRA]A4+	-	-	-
3	Unallocated	Long Term/ Short Term	32.68		[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 www.icra.in

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 (Stable)
NA	Non-fund Based	NA	NA	NA	2.05	[ICRA]A4+
NA	Unallocated	NA	NA	NA	32.68	[ICRA]BB (Stable)/[ICRA]A4+

Source: Punjab Alkalies & Chemicals Limited

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

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