

August 06, 2015

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	1.76	SMERA BB+/Stable (Assigned)
Cash Credit	35.00	SMERA BB+/Stable (Assigned)
Letter of Credit & Bank Guarantee	13.24	SMERA A4+ (Assigned)

SMERA has assigned a rating of '**SMERA BB+**' (read as **SMERA double B plus**) and '**SMERA A4+**' (read as **SMERA A four plus**) to the Rs.50.00 crore bank facilities of Tanfac Industries Limited (TIL). The outlook is '**Stable**'. The rating derives comfort from the established track record of the company, healthy order book position, improved quarterly performance and continuous financial support extended by the Aditya Birla Group (ABG). However, the rating is constrained by the moderate financial risk profile of the company, tough competition from imports and raw material price volatility.

TIL, a Tamil Nadu-based company is a joint venture between Tamil Nadu Industrial Development Corporation (TIDCO) and ABG with management control vesting with the latter. The company manufactures organic and inorganic chemicals and has a long operational track record of almost four decades in the chemical industry. TIL benefits from its experienced management and continuous financial support from ABG.

TIL has a healthy order book of around Rs.72.00 crore for anhydrous hydrofluoric acid (AHF) and aluminium flouride to be completed by Q2 2016. While the company registered losses in FY2013-14 upto Q3 2015, it reported improvement in its performance for Q4 2015 and Q1 2016. In Q4 2015, TIL registered revenue of Rs.28.74 crore at an operating margin of ~13 per cent while in Q1 2016, the revenue was Rs.42.37 crore at an operating margin of ~12 per cent (provisional). The company's operational capacity is around 40 per cent for products viz. AHF acid and Aluminium Flouride and to utilize its unutilized capacities, it plans to undertake job work for ABG companies.

The tangible net worth of TIL is supported by intercorporate deposits (ICD) of Rs.30.00 crore from ABG which are subordinated to bank debt and hence considered as quasi equity. Further, the company received funding of Rs.5.00 crore in March 2015 from issue of preference shares to ABG. Taking support from the funding received from ABG, the gearing stands at 0.99 times as on March 31, 2015. The total debt of Rs.34.26 crore (excluding ICD) majorly comprises short term working capital loans of Rs.32.50 crore as on March 31, 2015. The management plans to further strengthen the capital structure by raising additional funds to the tune of Rs.15.00 crore through a rights issue and by selling off non-core assets in FY2015-16.

TIL operates in a highly competitive industry and its margins are susceptible to volatility in raw material prices and changes in government policy with respect to imports.

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Rating Sensitivity Factors

- Successful subscription of rights issue
- Sustainability of profits
- Sale of non-core assets

Outlook: Stable

SMERA believes that TIL will continue to benefit over the medium term from its established presence in the chemical industry and strong financial support from ABG. The outlook may be revised to 'Positive' in case the company registers improvement in its scale of operations while achieving comfortable operating profit margin. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve scalability amidst intensifying competition in its area of operations or in case of deterioration in the company's profitability on account of rising costs, and higher than expected debt funded working capital requirements.

About the Company

TIL, a Tamil Nadu-based company incorporated in 1974 is a joint venture between TIDCO and ABG and manufactures organic and inorganic fluorine-based chemicals such as aluminium fluoride, anhydrous hydrofluoric acid (AHF), sodium silico fluoride among others. The manufacturing facility of the company is located at Cuddalore.

For FY2014-15, TIL reported net loss of Rs.5.29 crore on operating income of Rs.119.92 crore as compared with net loss of Rs.3.03 crore on operating income of Rs.117.19 crore for FY2013-14. The company's net worth stands at Rs.4.63 crore as on March 31, 2015 as compared with Rs.5.39 crore a year earlier.

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