

Tanfac Industries Limited: Upgraded

Facilities	Amount (Rs Crore)	Ratings/Outlook
Term Loan	1.76	SMERA BBB-/Stable (Withdrawn)
Cash Credit	25.00 (Revised from 35.00)	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)
Letter of Credit/Bank Guarantee	55.00 (Revised from 13.24)	SMERA A3 (Upgraded from SMERA A4+)

SMERA has upgraded the ratings on the Rs.80.00 crore bank facilities of Tanfac Industries Limited (TIL) to **'SMERA BBB-' (read as SMERA triple B minus)** and **'SMERA A3' (read as SMERA A three)** from **'SMERA BB+' (read as SMERA double B plus)** and **'SMERA A4+' (SMERA A four plus)**. SMERA has also withdrawn the rating of **'SMERA BBB-' (read as SMERA triple B minus)** assigned to the Rs.1.76 crore bank facility of TIL. The outlook is **'Stable'**.

The ratings continue to derive comfort from the established track record of operations, healthy order book position, improved quarterly performance and continuous financial support extended by the Aditya Birla Group (ABG). However, the ratings are constrained by the moderate financial risk profile, tough competition from imports and raw material price volatility.

Key Update

TIL, incorporated in 1974, manufactures organic and inorganic fluorine-based chemicals. The margins have remained stable in FY2016 over FY2015. The EBITDA margin stood at 6.80 per cent in FY2016 as compared to 6.93 per cent for FY2015. The company also registered net profit of Rs.0.40 crore as against net loss of Rs.5.29 crore in FY2015 mainly on account of extraordinary income from sale of assets - in line with its strategy to sell non-core assets. The company earned profit of Rs.3.72 crore in FY2016 from sale of non-core assets which it sold off in H12016. The company has registered revenue of Rs.66.89 crore during H12017 as against Rs.66.72 crore during the corresponding period last year.

The gearing of TIL improved from 0.99 times as on March 31, 2015 to 0.48 times as on March 31, 2016 due to repayment of long term debt taken from HDFC. The tangible networth is supported by inter-corporate deposits of Rs.36.30 crore from ABG Group Companies (11 per cent p.a) and preference shares of Rs.5.00 crore as on March 31, 2016. Loans from promoters/group entities are subordinated to bank debt. Further, the profit from sale of non-core assets have also aided in improving the capital structure. The ICR improved marginally to 1.65 times in FY2016 from 0.90 times in FY2015 on account of the reducing interest costs.

Rating Sensitivity Factors

- Increase in scale of operations while maintaining profit margins
- Maintaining adequate liquidity
- Movement in gearing and coverage indicators

Outlook: Stable

SMERA believes that TIL will continue to maintain a stable outlook and 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 of failure to achieve scalability amidst intensifying competition in its area of operations or registers deterioration in profitability on account of rising costs, and higher than expected debt funded working capital requirements.

Criteria applied for arriving at the ratings:

- Manufacturing Entities

About the Company

TIL was incorporated in 1974 by Tamil Nadu Industrial Development Corporation (TIDCO) as a joint sector company along with Mr. L. Narayanan Chettiar. In 1980, Aditya Birla Group (ABG) bought out the 25 per cent stake from Mr. Chettiar thereby becoming the co-promoter of TIL. The management control of the company is vested with ABG. TIL is engaged in the manufacture of organic and inorganic fluorine-based chemicals such as Aluminium Fluoride, Anhydrous Hydrofluoric acid (AHF), Sodium Silico Fluoride, Ammonium Bifluoride, Potassium Fluoride, Cryolite and other Organic Fluorine based chemicals. Its manufacturing facility is situated at Cuddalore.

For FY2015-16, TIL reported profit after tax (PAT) of Rs.0.40 crore on operating income of Rs.133.32 crore, as compared to net loss of Rs.(5.29) crore on operating income of Rs.119.92 crore for FY2014-15.

Rating History

Date	Facilities	Amount (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
06 August, 2015	Term Loan	1.76	SMERA BB+ (Assigned)	-	Stable
	Cash Credit	35.00	SMERA BB+ (Assigned)	-	Stable
	Letter of Credit and Bank Guarantee	13.24	-	SMERA A4+ (Assigned)	-

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ABOUT SMERA

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