

## Press Release

### Tanfac Industries Limited (TIL)

06 April, 2018

### Rating Upgraded



<b>Total Bank Facilities Rated*</b>	Rs.80.00 Cr.
<b>Long Term Rating</b>	SMERA BBB/ Outlook: Stable
<b>Short Term Rating</b>	SMERA A3+

\* Refer Annexure for details

### Rating Rationale

SMERA has upgraded the long term rating to '**SMERA BBB**' (read as **SMERA triple B**) from '**SMERA BBB-**' (read as **SMERA triple B minus**) and short term rating to '**SMERA A3+**' (read as **SMERA A three plus**) from '**SMERA A3**' (read as **SMERA A three**) on the Rs. 80.00 cr. bank facilities of Tanfac Industries Limited (TIL). The outlook is '**Stable**'.

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 Bi-fluoride, Potassium Fluoride, Cryolite and other Organic Fluorine based chemicals. Its manufacturing facility is situated at Cuddalore. TIL is listed on BSE.

### Key rating drivers

#### Strengths

##### Group Support

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 bought out 25.00 percent stake from Mr. Chettiar thereby becoming the co-promoter of TIL. The management control of the company is vested with Aditya Birla Group (ABG).

##### Established track record of operations and experienced management

The directors of the company Mr. Askaran Agarwala, Mr. Krishnakishore Maheshwari and others have over three decades of experience in aforementioned line of business. Over the years the company has established a reputation for doing business in the chemical industry. TIL is a public company listed on the Bombay Stock Exchange. SMERA believes that the company will continue to benefit from the extensive experience of the management.

##### Improving profitability margins

TIL's EBITDA margin has improved to 12.27 percent in FY2017 from 6.80 percent in FY2016. The improvement in the margins is mainly on account of decline in the raw material prices. Further the PAT margin stood at 3.03 percent in FY2017 as compared to 0.30 percent in FY2016.

### Healthy financial Risk Profile

TIL has healthy financial risk profile marked by tangible net worth of Rs. 40.06 crore as on 31st March, 2017 as against Rs. 36.33 crore as on 31st March, 2016. The gearing stood at 0.41 times as on 31st March, 2017 as against 0.68 times as on 31st March, 2016. The debt of Rs. 16.48 crore mainly consists working capital borrowings of Rs. 11.48 crore as on 31 March 2017. The Interest Coverage Ratio (ICR) stood at 2.24 times for FY2017 as against 1.35 times in FY2016. The Debt Service Coverage Ratio (DSCR) stood at 2.24 times for FY2017 as against 1.35 times in FY2016. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.91 times as on 31st March, 2017 as against 1.50 times as on 31st March, 2016. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.51 times as on 31st March, 2017.

### Weaknesses

#### Decline in Operating Revenue

The operations of the TIL are moderate, despite the firm being in the current line of business over four decades. The company has achieved operating income of 123.49 crore in FY2017 as compared to Rs. 133.32 crore in FY2016. Further the company has booked revenue of Rs.112.88 crore from the period April 2017 to December 2017.

#### Competitive and fragmented industry

The company is in the chemical compounds sector and faces intense competition marked by the presence of several mid to large size players. However this risk is mitigated to an extent as management operating in this environment for last 44 years and the company has an established brand name.

#### Analytical approach:

SMERA has considered the standalone business and financial risk profiles of TIL to arrive at the rating.

#### 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.

#### About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	123.49	133.32	119.92
EBITDA	Rs. Cr.	15.15	9.07	8.31
PAT	Rs. Cr.	3.74	0.40	(5.29)
EBITDA Margin	(%)	12.27	6.80	6.93
PAT Margin	(%)	3.03	0.30	(4.41)
ROCE	(%)	17.95	12.68	4.45
Total Debt/Tangible Net Worth	Times	0.41	0.68	1.33
PBDIT/Interest	Times	2.24	1.65	0.90
Total Debt/PBDIT	Times	1.08	1.90	4.43

Gross Current Assets (Days)	Days	91	114	125
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**Any other information:**

Not Applicable

**Applicable Criteria**

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

**Note on complexity levels of the rated instrument**

<https://www.smera.in/criteria-complexity-levels.htm>

**Status of non-cooperation with previous CRA (if applicable):**

None

**Rating History (Upto last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-Dec-2016	Term Loan	Long Term	1.76	SMERA BBB-/Stable (Withdrawn)
	Cash Credit	Long Term	25.00	SMERA BBB-/Stable (Upgraded)
	Letter of Credit	Short Term	55.00	SMERA A3 (Upgraded)
06-Aug-2015	Term Loan	Long Term	1.76	SMERA BB+ (Assigned)
	Cash Credit	Long Term	35.00	SMERA BB+ (Assigned)
	Letter of Credit	Short Term	13.24	SMERA A4+ (Assigned)

**Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	SMERA BBB/ Stable (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	55.00	SMERA A3+/ Stable (Upgraded)

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**ABOUT SMERA**

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