

## Press Release

Tanfac Industries Limited

D-U-N-S® Number: 65-020-1288

February 25, 2019



### Rating Upgraded, Assigned and Withdrawn

<b>Total Bank Facilities Rated*</b>	Rs. 100.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB+ / Outlook: Stable (Upgraded from ACUITE BBB/Stable)
<b>Short Term Rating</b>	ACUITE A2 (Upgraded from ACUITE A3+)

\* Refer Annexure for details

### Rating Rationale

Acuite has upgraded long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A2**' (read as **ACUITE A two**) from '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 68.00 crore bank facilities of TANFAC INDUSTRIES LIMITED. The outlook is '**Stable**'.

Further, Acuite has withdrawn the long-term rating of '**ACUITE BBB+/Stable**' (read as **ACUITE triple B plus**) and short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 6.00 crore bank facilities of TANFAC INDUSTRIES LIMITED.

Acuite has assigned a long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 32.00 crore bank facilities of TANFAC INDUSTRIES LIMITED. The outlook is '**Stable**'.

The upgrade on account of significant improvement in scale of operations, increase in margins, improvement in liquidity visible from low reliance on external borrowings which stood at ~30-40 percent and overall improvement in the financial risk profile of the company. The revenues has improved to Rs.161.76 crore in FY2018 as against Rs.126.49 crore in the previous year. Further, the company has booked revenue of Rs. 167.78 crore for 9MFY2019 as against Rs.114.56 crore for 9MFY2018. The EBITDA margins have improved to 12.63 per cent for FY2018 as against 11.49 per cent in the previous year. Further, the EBITDA margin stood at 24.48 per cent for 9MFY2019 as against 13.43 per cent for 9MFY2018. The improvement in margins has led to improvement in coverage indicators and debt protection metrics of 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 Bi-fluoride, Potassium Fluoride, Cryolite and other Organic Fluorine based chemicals. Its manufacturing facility is situated at Cuddalore. TIL is listed on BSE.

### Analytical Approach

Acuite has considered the standalone financial and business risk profile of TIL to arrive at the rating.

### Key Rating Drivers

#### Strengths

- Long track record of operations experienced management along with strong group support

TIL was incorporated in 1974 as a joint sector company between Tamil Nadu Industrial Development

Corporation (TIDCO) and Mr. L. Narayanan Chettiar. In 1980, Aditya Birla Group, an India multinational conglomerate invested in TIL, thereby acquiring 25.00 percent stake from Mr. Chettiar. The management control of the company is vested with Aditya Birla Group (ABG). The directors of the company Mr. Askaran Agarwala, Mr. Krishnakishore Maheshwari, key management people in the Aditya Birla Group along with other directors have over three decades of experience in aforementioned line of business. Over the years the company has established a reputation in the chemical industry. TIL is a public company listed on the Bombay Stock Exchange. Acuité believes support from ABG provides comfort to the business and management risk profile of the company and the long track record of operations with management's extensive experience helps the company maintain healthy and long standing relations with customers and suppliers.

- **Continuous growth in operating income along with improvement in profitability margins**

The company registered a healthy growth in operating income. TIL's operating income stood at Rs.157.07 crore for FY2018 against Rs.131.11 crore for FY2017. The company registered revenue of Rs.167.78 crore for nine months ending December, 2019 against Rs.114.56 crore for the previous period. TIL's operating margin has improved to 12.63 percent in FY2018 from 11.49 percent in FY2017 and 6.78 per cent for FY2016. Further, the EBITDA margin stood at 24.48 per cent for 9MFY2019 as against 13.43 per cent for 9MFY2018. The improvement in the margins is mainly on account of favorable prices for raw material and finished goods. Further the PAT margin stood at 5.98 percent in FY2018 as compared to 2.61 percent in FY2017 and 0.30 per cent in FY2016.

- **Healthy Financial Risk Profile**

TIL's financial risk profile is healthy marked by a healthy net worth, healthy gearing and healthy debt protection metrics. The net worth of the company stood at Rs.44.29 crore as on March 31, 2018 (includes inter-corporate deposits of Rs.25.00 crore and redeemable preference share capital of Rs.6.68 crore) against Rs.42.42 crore as on March 31, 2017 (includes inter-corporate deposits of Rs.36.30 crore and redeemable preference share capital of Rs.6.12 crore). The gearing of the company stood at 0.27 times as on March 31, 2018 as against 0.25 times as on March 31, 2017.

The interest coverage ratio of TIL stood at 3.44 times for FY2018 against 2.21 times for FY2017. The DSCR stood at 3.42 times for FY2018 against 2.21 times for FY2017. The net cash accruals stood at Rs.14.62 crore in FY2018 against no term debt obligations. The TOL/TNW ratio stood at 0.88 times as on March 31, 2018 against 0.69 times as on March 31, 2017.

The company is expected to undergo a capital expenditure in FY2019. Considering the current debt funded capex, the additional debt funded capex is not likely to significantly impact the financial risk profile of the company in near to medium term. Further, the networth of the company is expected to remain at same level on account of repayment of inter-corporate deposits. This repayment is expected to be repaid through internal accruals. Any higher-than-expected deterioration in financial risk profile of the company will remain a key rating sensitivity factor.

## **Weaknesses**

- **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.

## **Outlook: Stable**

Acuité 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 elongation in working capital cycle.

### About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	161.76	126.49	133.32
EBITDA	Rs. Cr.	20.44	14.53	9.03
PAT	Rs. Cr.	9.68	3.30	0.40
EBITDA Margin	(%)	12.63	11.49	6.78
PAT Margin	(%)	5.98	2.61	0.30
ROCE	(%)	27.97	16.75	26.76
Total Debt/Tangible Net Worth	Times	0.27	0.25	0.47
PBDIT/Interest	Times	3.44	2.21	1.65
Total Debt/PBDIT	Times	0.57	0.78	1.52
Gross Current Assets (Days)	Days	91	86	110

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

### Note on complexity levels of the rated instrument

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

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
06-Apr-2018	Cash Credit	Long Term	25.00	ACUITE BBB / Stable (Upgraded)
	Letter of Credit	Short Term	55.00	ACUITE A3+ (Upgraded)
09-Dec-2016	Cash Credit	Long Term	25.00	ACUITE BBB- / Stable (Upgraded)
	Term Loan	Long Term	1.76	ACUITE BBB- / Stable (Withdrawn)
	Letter of Credit	Short Term	55.00	ACUITE A3 (Upgraded)
06-Aug-2015	Term Loan	Long Term	1.76	ACUITE BB+ / Stable (Assigned)
	Cash Credit	Long Term	35.00	ACUITE BB+ / Stable (Assigned)
	Letter of Credit	Short Term	13.24	ACUITE A4+ (Assigned)

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB+/Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB+/Stable (Withdrawn)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB+/Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+/Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	48.00	ACUITE A2 (Upgraded)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A2 (Withdrawn)
Proposed Letter of credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2 (Assigned)

\*\*Sublimit of FBDN of Rs.4.00 crore, Inland Bill Discounting of Rs.0.50 crore and EPC of Rs.3.00 crore  
#Sublimit of BG of Rs.5.00 crore & two-way interchangeability from FBWC to NFBWC limit to an extent of Rs.11.00 crore.

\$ Sublimit of EPC/PCFC/EBD/FBD/FBP/FBN/EBRD of Rs.3.00 crore

\*Sublimit of Bank Guarantee of Rs.3.00 crore

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**About Acuité Ratings & Research:**

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