

Press Release

Tanfac Industries Limited

September 18, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE BBB+/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A2 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short-term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.100.00 Cr bank facilities of Tanfac Industries Limited (TIL). The outlook is '**Stable**'.

TIL was incorporated in 1972 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 manufacturing of inorganic fluorine-based chemicals such as Anhydrous Hydrofluoric acid, Sulphuric Acid, Oleum, Aluminium Fluoride, Potassium Fluoride, Potassium Bifluoride, Boron Trifluoride Complexes, Calcium Sulphate (Gypsum), IsoButyl Acetophenone, Acetic Acid, Peracetic Acid and Poly Aluminium Chloride, etc. These inorganic fluorine based chemicals have vital applications in industries such as aluminum smelting, petroleum refining, refrigerant gases, steel re-rolling, glass, ceramics, sugar, fertilizers, and heavy water. Its manufacturing facility is situated at Cuddalore. Currently, the company has an Anhydrous Hydrofluoric Acid capacity of 15,600 metric tonnes per annum (MTPA), 15,600 MTPA of Aluminium Fluoride, 81,600 MTPA of sulphuric acid and 3,400 MTPA of speciality fluorides. TIL is listed on BSE.

Analytical Approach

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

Key Rating Drivers

Strengths

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

TIL was incorporated in 1972 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. Venkataraman Thirumoorthy, Mr. Kalyan Ram Madabhushi, key management people in the Aditya Birla Group along with other directors, have over three decades of experience in the 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.

Acuite 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.

- **Healthy financial risk profile**

TIL's financial risk profile is healthy marked by healthy net worth, healthy gearing and healthy debt protection metrics. The net worth of the company stood at Rs.65.20 crore as on March 31, 2020 against Rs.53.62 crore as on March 31, 2019 (includes redeemable preference share capital of Rs.5.59 crore). The gearing of the company stood at 0.01 times as on March 31, 2020 as against 0.12 times as on March 31, 2019.

The interest coverage ratio of TIL stood at 16.59 times for FY2020 against 13.94 times for FY2019. The DSCR stood at 13.85 times for FY2020 against 12.46 times for FY2019. The net cash accruals stood at Rs.21.92 crore in FY2020 against no term debt obligations. The TOL/TNW ratio stood at 0.37 times as on March 31, 2020 against 1.17 times as on March 31, 2019.

The company has repaid the remaining inter-corporate deposit in FY2019. Also, the preference shares were redeemed in FY2020. Finance cost, including forex cover charges on foreign exchange borrowings, was reduced due to continued focus on working capital management, repayment of debts by using operating cash flows generated, reduction in interest rate and other finance cost optimization. The company has achieved debt-free status during FY2020.

The company's operating performance declined in FY2020 due to decline in sulphuric acid prices, which had increased significantly in the previous year and due decline in sales of aluminium fluoride which constitutes almost 60 per cent of the revenues. However, the profit margins remained healthy compared to the years prior to FY2019, supported by healthy margins in Androus hydrofluoric segment and some moderation in raw material prices. The company was also able to diversify raw material sourcing from China to other geographical areas like Vietnam, Thailand, in recent years. During Q1 FY2020, the revenues of the company declined due to disruption in operations and low demand due to the lockdown. However, operating margins remained healthy, supported by lower raw material prices and cost control measures. Currently, the company is operating at full capacity.

The company is expected to undergo a capital expenditure in the last quarter of FY2021 which will be funded through internal accruals. Also, any additional debt-funded capex is not likely to significantly impact the financial risk profile of the company in near to medium term. Any higher-than-expected deterioration in the 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 the company is operating in this environment for almost five decades now and the company has an established brand name.

Rating Sensitivity

- Significant growth in operating revenues while maintaining the profitability margins.
- Stretched working capital cycle and deterioration in liquidity position.

Material Covenants

Sr. No.	Parameter	Acceptable level for covenant as per sanction letter
1	Adj. TNW	>Rs 60.00 Cr.
2	TOL/Adj. TNW	< 2.00x
3	Interest Coverage Ratio	> 2.00x
4	Debt Service Coverage Ratio	> 1.5x

Liquidity Position: Strong

TIL has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.8.03-43.99 crore during the four years through 2017-20, while its maturing debt obligations were nil over the same period. The cash accruals of the company are estimated to remain around Rs.20–25 crore during 2021- 23. The company's operations are working capital comfortable as marked by Gross Current Asset (GCA) days of 96 in FY 2020. The reliance on

working capital borrowings is low. The current ratio of the company stands healthy at 2.27 times as on March 31, 2020. Also, cash flow from operations is expected to witness moderation due to impact of COVID-19, the liquidity is expected to be adequate on the back of availability of unutilized fund based limits and no term debt repayment obligations over the near to medium term.

Outlook: Stable

Acuite 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 maintaining a 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 the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	165.38	221.72
PAT	Rs. Cr.	17.28	35.97
PAT Margin	(%)	10.45	16.22
Total Debt/Tangible Net Worth	Times	0.01	0.12
PBDIT/Interest	Times	16.59	13.94

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition -<https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities -<https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25-Feb-2019	Cash Credit	Long Term	20.00	ACUITE BBB+/ Stable (Upgraded)
	Cash Credit	Long Term	4.00	ACUITE BBB+ (Withdrawn)
	Standby Line of Credit	Long Term	2.00	ACUITE BBB+/Stable (Assigned)
	Proposed Term Loan	Long Term	10.00	ACUITE BBB+/Stable (Assigned)
	Proposed Bank Facility	Long Term	10.00	ACUITE BBB+/Stable (Assigned)
	Letter of Credit	Short Term	48.00	ACUITE A2 (Upgraded)
	Letter of Credit	Short Term	2.00	ACUITE A2 (Withdrawn)
	Proposed Letter of Credit	Short Term	10.00	ACUITE A2 (Assigned)
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	Term Loan	Long Term	1.76	ACUITE BBB-/ Stable (Withdrawn)
	Cash Credit	Long Term	25.00	ACUITE BBB-/ Stable (Upgraded)
	Letter of Credit	Short Term	55.00	ACUITE A3 (Upgraded)

***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	4.00*	ACUITE BBB+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00**	ACUITE BBB+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00\$	ACUITE BBB+/Stable (Reaffirmed)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB+/Stable (Reaffirmed)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	44.00#	ACUITE A2 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.00^	ACUITE A2 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2 (Reaffirmed)

*Includes sublimit of export credit of Rs. 4.00 crore and working capital demand loan of Rs. 4.00 crore.

\$ Includes sublimit of EPC/PCFC/EBD/FBD/FBP/FBN/EBRD of Rs.5.00 crore, working capital demand loan of Rs. 2.50 crore and LC/BG of Rs. 2.50 crore.

^Includes sublimit of Bank Guarantee of Rs.3.00 crore

**Includes sublimit of FBDN of Rs.4.00 crore, Inland Bill Discounting of Rs.0.50 crore and EPC of Rs.3.00 crore

#Includes sublimit of BG of Rs.5.00 crore and forward contract of Rs. 1.50 crore

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About Acuite Ratings & Research:

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