

Press Release

Tanfac Industries Limited

December 08, 2021

Rating Upgraded



Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Long Term Rating	Short Term Rating
Bank Loan Ratings	58.00	58.00		ACUITE A2+ Upgraded
Bank Loan Ratings	42.00	42.00	ACUITE A- Stable Upgraded	
Total	-	100.00	-	-

Rating Rationale

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

Rationale for rating upgrade

The rating upgrade reflects a substantial improvement in the overall business and financial risk profile of the company. The improvement in the business risk profile is reflected through the increased scale of operation in HY2022 as compared to the preceding years. The growth in revenue is expected to be sustained in medium term backed by increase in revenues from Speciality Fluorides segment. The operating margins of the company improved to 27.78 percent in HY2022 from 23.04 per cent in FY2021 and 16.55 per cent in FY2020. The improvement of operating margin was on account of spurt in the volume and realization of one of its Value-Added Products

The rating is further strengthened by healthy financial risk profile of the company marked by no debt, strong debt protection metrics and healthy liquidity. Healthy operating performance and reduction in debt has resulted in healthy debt protection metrics. The interest coverage ratio stood at 32.09 times in FY2021 as compared to 16.59 times in the previous year. The liquidity is healthy reflected by nil bank limit utilisation in the last 8 months ended October, 2021. Further, the net cash accruals stood at Rs.26.51 crore against no debt obligation. The capital structure has improved over the years due to healthy cash accruals and reduction in debt levels.

About the Company

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 Androus 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

Acuité has considered the standalone business and financial risk profiles of the 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.

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.

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.83.24 crore as on March 31, 2021 against Rs. 65.20 crore as on March 31, 2020. The improvement is on account of accretion to reserves. The gearing of the company stood nil as on March 31, 2021 as against 0.01 times as on March 31, 2020.

The interest coverage ratio of TIL improved significantly and stood at 32.09 times for FY2021 against 16.59 times for FY2020. The net cash accruals stood at Rs.26.51 crore in FY2021 against no term debt obligations. The TOL/TNW ratio stood at 0.44 times as on March 31, 2021 against 0.37 times as on March 31, 2020.

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 FY2021 and FY2020 due to decline in sulphuric acid prices, which had increased significantly in the previous year and due decline in sales of aluminium and hydrogen fluoride and 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 FY2021, 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. Revenue stood at Rs.148.93 crore in FY 2021 over the previous year of Rs. 165.38 crore in FY2020. However, the company registered an improvement in revenue in current year. The revenues for HY2022 stood at Rs.164.34 crore against Rs.62.04 crore during same period previous year. This improvement was due to increase in demand for speciality fluorides (Potassium Fluoride) which are used in the manufacturing of medicines used for treatment of COVID-19. Operating Margins of TIL stood at 23.04 per cent in FY2021 compared to 16.55 per cent in FY2020. This was mainly due to spurt in the volume and realization of one of its Value-Added Products. The company was able to pass on the increased raw material prices to the customers. Currently the raw material prices are stable. However, moderation is expected by Q1 of FY2023.

The company had undergone a capital expenditure in the last quarter of FY2021 which was funded through internal accruals. TIL has plans for another capex of Rs.75.00-80.00 crore in third quarter of FY2023 to add some new value added products. The project will be in 2 phases and will be completed by last quarter of FY2024. However, nothing is certain yet. If the company gets approval for the capex it will be entirely funded through internal accruals. Hence, any additional debt-funded capex is not likely to significantly impact the financial risk profile of the company in near to medium term.

Acuité expects the company to maintain its financial risk profile on account of improving profitability and moderate working capital requirement.

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.

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.14.62-26.51 crore during the four years through 2018-21, while its maturing debt obligations were nil over the same period. The cash accruals of the company are estimated to remain around Rs.55-57 crore during 2022- 24. The company's operations are working capital comfortable as marked by Gross Current Asset (GCA) days of 122 in FY 2021. The reliance on working capital borrowings is low. The current ratio of the company stands healthy at 2.27 times as on March 31, 2021. The liquidity is expected to be strong on the back of availability of unutilized fund based limits and no term debt repayment obligations over the near to medium term.

Rating Sensitivities

- 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

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 maintaining 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	148.93	165.38
PAT	Rs. Cr.	18.04	17.28
PAT Margin	(%)	12.11	10.45
Total Debt/Tangible Net Worth	Times	0.00	0.01
PBDIT/Interest	Times	32.09	16.59

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>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
18 Sep 2020	Proposed Bank Facility	Long Term	10.00	ACUITE BBB+ Stable (Reaffirmed)
	Letter of Credit	Short Term	9.00	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	11.00	ACUITE BBB+ Stable (Reaffirmed)
	Standby Line of Credit	Long Term	2.00	ACUITE BBB+ Stable (Reaffirmed)
	Letter of Credit	Short Term	44.00	ACUITE A2 (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE BBB+ Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BBB+ Stable (Reaffirmed)

	Proposed Long Term Loan	Long Term	10.00	ACUITE BBB+ Stable (Reaffirmed)
25 Feb 2019	Standby Line of Credit	Long Term	2.00	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	4.00	ACUITE BBB+ (Withdrawn)
	Cash Credit	Long Term	20.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Proposed Bank Facility	Long Term	10.00	ACUITE BBB+ Stable (Assigned)
	Proposed Term Loan	Long Term	10.00	ACUITE BBB+ Stable (Assigned)
	Letter of Credit	Short Term	48.00	ACUITE A2 (Upgraded from ACUITE A3+)
	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 from ACUITE BBB- Stable)
	Letter of Credit	Short Term	55.00	ACUITE A3+ (Upgraded from ACUITE A3)
09 Dec 2016	Cash Credit	Long Term	25.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Term Loan	Long Term	1.76	ACUITE BBB- Stable (Withdrawn)
	Letter of Credit	Short Term	55.00	ACUITE A3 (Upgraded from ACUITE A4+)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	11.00	11.00	ACUITE A- Stable Upgraded (from ACUITE BBB+)
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	2.00	ACUITE A- Stable Upgraded (from ACUITE BBB+)
IDBI Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	5.00	ACUITE A- Stable Upgraded (from ACUITE BBB+)
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	4.00	ACUITE A- Stable Upgraded (from ACUITE BBB+)
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	44.00	44.00	ACUITE A2+ Upgraded (from ACUITE A2)
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	5.00	ACUITE A2+ Upgraded (from ACUITE A2)
IDBI Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.00	9.00	ACUITE A2+ Upgraded (from ACUITE A2)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	10.00	ACUITE A- Stable Upgraded (from ACUITE BBB+)
Not	Not	Proposed	Not	Not	Not			ACUITE A- Stable Upgraded

Applicable	Applicable	Term Loan	Applicable	Applicable	Applicable	10.00	10.00	(from ACUITE BBB+)
------------	------------	--------------	------------	------------	------------	-------	-------	----------------------------

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Aishwarya Phalke Senior Analyst-Rating Operations Tel: 022-49294065 aishwarya.phalke@acuite.in	

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité