

## Press Release

Tanfac Industries Limited

December 21, 2022

### Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	32.00	ACUITE A-   Positive   Reaffirmed   Stable to Positive	-
Bank Loan Ratings	68.00	-	ACUITE A2+   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

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

#### Rating Rationale

The revision in outlook is majorly on account of expected synergy benefits that the company will derive from the stake acquisition by Anupam Rasayan India Limited (ARIL) from Birla Group Holdings Private Limited in March 2022. The acquisition of 24.96% stake by ARIL is in a form a backward integration for procuring key input materials for its products from TIL. The acquisition is also expected to support the growth in operations and profitability of TIL sighting the integration of its products with ARIL over the medium term.

The revenues of the company witnessed improvement to Rs. 320.17 crore in FY2022 compared against Rs. 148.93 crore in FY2021. Furthermore, TIL's performance remains consistent during H1FY2023 as well with revenue of Rs.160.67 crore. The growth is driven majorly by the specialty fluorides segment of the company. The rating also factors in the healthy financial risk profile of by being a debt free company with no long-term debt funding with healthy network. Also, the liquidity of the company continued to remain strong with adequate net cash accruals against no debt obligations and no utilization of fund-based limits.

However, the rating is constrained basis of the company being in a competitive and fragmented industry with multiple mid-size to large size players.

#### 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 25.00 percent stake from Mr. Chettiar, thereby becoming the co-promoter of TIL. However, in March 2022, Anupam Rasayan India Limited (ARIL) acquired Birla Group Holdings Private Limited's stake and became the co-promoter of the company with TIDCO. 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. TIL is listed on the Bombay Stock Exchange (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**

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 was vested with Aditya Birla Group (ABG).

However, Birla Group Holdings Private Limited sold its stake to Anupam Rasayan India Limited (ARIL) in March 2022, resultantly making ARIL the co-promoter along with TIDCO of TIL. The company is engaged in the manufacturing of inorganic fluorine-based chemicals which have vital applications in industries such as aluminium smelting, petroleum refining, refrigerant gases, steel re-rolling, glass, ceramics, sugar, fertilizers, and heavy water. Its manufacturing facility is situated at Cuddalore. Furthermore, the company has well established operations with senior management and directors who have 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 ARIL 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.

##### **Synergy benefits expected after stake acquisition by ARIL**

TIL witnessed change in co-promotership, wherein, Birla Group Holdings Private Limited sold its 24.96% stake to Anupam Rasayan India Limited (ARIL). This acquisition by ARIL was in sight of backward integration by ARIL for its input materials. ARIL is in the manufacturing of chlorination chemicals which uses the chemicals manufactured by TIL as input. Thus, synergy benefits are pegged to be recorded with TIL being the supplier for input materials of ARIL. The acquisition is also expected to support the growth in operations and profitability of TIL sighting the integration of its products with ARIL over the medium term. Acuité believes that the anticipated synergies will remain a sensitivity factor for the operations of TIL over near to medium term.

##### **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. 133.69 crore as on March 31, 2022 against Rs. 83.24 crore as on March 31, 2021. The improvement is on account of accretion to reserves. The company continued to remain a debt free company till date. However, the company has availed fund band facilities from bank which are not being utilized as on March 31, 2022.

The interest coverage ratio of TIL improved significantly and stood at 39.33 times for FY 2022 against 31.36 times for FY 2021. The TOL/TNW ratio stood at 0.36 times as on March 31, 2022 against 0.44 times as on March 31, 2021.

Acuité believes that the financial risk profile of the company will continue to remain healthy on account of no major debt funded capex over near to medium term.

##### **Improvement in scale of operations**

The company's operating performance improved in FY 2022 over FY 2021 due to sales of its value added product (Potassium Fluoride), which had increased significantly during Covid-19

pandemic as Potassium Fluoride was a critical ingredient in the Covid-19 vaccine. The revenues of the company witnessed improvement to Rs.320.17 crore in FY2022 compared against Rs.148.93 crore in FY2021. Furthermore, TIL's performance remains consistent during H1FY2023 as well with revenue of Rs.160.67 crore. The revenue segmentation of the value added product stood at 25.71% in FY 2022 and approx. 17.43% for the half yearly sales in FY 2023. In conjunction with the increase in revenue, the profit margins remained healthy. The operating profit margin of TIL stood at 23.84 per cent in FY 2022 compared to 23.04 per cent in FY 2021. However, despite the improvement in operations, the scale of operations remain modest as the company has only one operating plant for its operations thereby restriction the production and sales volumes.

### **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. The company faces intense competition from peers and international 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 track record and a brand name.

### **Rating Sensitivities**

- Significant growth in operating revenues while maintaining the profitability margins
- Stretched working capital cycle and deterioration in liquidity position
- Synergy benefits derived from ARIL

### **Material covenants**

None

### **Liquidity Position**

#### **Strong**

TIL has strong liquidity marked by healthy net cash accruals and nil debt obligations. The company generated cash accruals of Rs. 21.92 - 58.88 crore during the three years through 2019 - 2022, while its maturing debt obligations were nil over the same period. The cash accruals of the company are estimated to remain around Rs. 63.81 - 73.87 crore during 2023 - 2024. The company's operations are working capital efficient as marked by Gross Current Asset (GCA) days of 92 days in FY 2022. The reliance on working capital borrowings is low as the company has not utilized its fund based facilities as on March 31, 2022. The current ratio of the company stands healthy at 2.82 times as on March 31, 2022 as against 2.27 times as on March 31, 2021. The liquidity is expected to be strong on the back of adequate net cash accruals with no term debt repayment obligations over the near to medium term and availability of unutilized fund based limits.

### **Outlook: Positive**

Acuité believes that TIL outlook will remain 'positive' over the near to medium term on account of expected synergy benefits that the company will derive from the stake acquisition by ARIL. The acquisition is also expected to support the growth in operations and profitability of TIL sighting the integration of its products with ARIL. The rating may be upgraded in case the company registers higher than expected growth in revenues and profitability. The outlook may be revised to 'Stable' in case the company registers lower than estimated sales in its scale of operations. Conversely the outlook may be revised to 'Negative' in case the company fails to achieve scalability amidst intensifying competition in its area of operations or registers deterioration in profitability and elongation in working capital cycle.

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	320.17	148.93
PAT	Rs. Cr.	53.28	17.47
PAT Margin	(%)	16.64	11.73
Total Debt/Tangible Net Worth	Times	0.00	0.00
PBDIT/Interest	Times	39.33	31.36

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

None

### 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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Dec 2021	Letter of Credit	Short Term	5.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Standby Line of Credit	Long Term	2.00	ACUITE A-   Stable (Upgraded from ACUITE BBB+   Stable)
	Proposed Long Term Loan	Long Term	10.00	ACUITE A-   Stable (Upgraded from ACUITE BBB+   Stable)
	Cash Credit	Long Term	11.00	ACUITE A-   Stable (Upgraded from ACUITE BBB+   Stable)
	Cash Credit	Long Term	5.00	ACUITE A-   Stable (Upgraded from ACUITE BBB+   Stable)
	Letter of Credit	Short Term	44.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Cash Credit	Long Term	4.00	ACUITE A-   Stable (Upgraded from ACUITE BBB+   Stable)
	Proposed Term Loan	Long Term	10.00	ACUITE A-   Stable (Upgraded from ACUITE BBB+   Stable)
	Letter of Credit	Short Term	9.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Proposed Bank Facility	Long Term	10.00	ACUITE BBB+   Stable (Reaffirmed)
	Letter of Credit	Short Term	9.00	ACUITE A2 (Reaffirmed)

18 Sep 2020	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)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	13.00	ACUITE A-   Positive   Reaffirmed   Stable to Positive
IDBI Bank Ltd.	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A-   Positive   Reaffirmed   Stable to Positive
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE A-   Positive   Reaffirmed   Stable to Positive
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	44.00	ACUITE A2+   Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A2+   Reaffirmed
IDBI Bank Ltd.	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	9.00	ACUITE A2+   Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A2+   Reaffirmed
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A-   Positive   Reaffirmed   Stable to Positive

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### About Acuité Ratings & Research

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