

Press Release
Tanfac Industries Limited
March 20, 2024
Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	32.00	ACUITE A Stable Upgraded Positive to Stable	-
Bank Loan Ratings	68.00	-	ACUITE A1 Upgraded
Total Outstanding Quantum (Rs. Cr)	100.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating from '**ACUITE A-**' (read as **ACUITE A minus**) to '**ACUITE A**' (read as **ACUITE A**) and short-term rating from '**ACUITE A2+**' (read as **ACUITE A two plus**) to '**ACUITE A1**' (read as **ACUITE A one**) on the Rs.100.00 crore bank facilities of Tanfac Industries Limited (TIL). The outlook has been changed to '**Stable**' from '**Positive**'.

Rationale for upgrade

The rating factors in the continuous improvement in business operations of the company marked by growth in revenue from Rs. 148.93 Cr. in FY21 to Rs. 379.36 Cr. in FY23 registering an overall growth of 154.72% in 2 years. The growth in revenue is driven by increased volume and realisation of hydrofluoric acid and business synergies with Anupam Rasayan India Limited (ARIL) wherein key raw material is being procured from TIL. As a result of higher demand the company is undergoing Capex of Rs. 105 Cr. for doubling the HF capacity. Further the rating factors in the strong financial risk profile of the company as reflected by the debt free position and improving networth of the company. 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. The growth in business and strong financial risk profile of the company is expected to continue in the near future due to better demand for its product and minimal dependence on external borrowings for the CAPEX.

However, the rating is constrained basis the company being in a competitive and fragmented industry with multiple mid-size to large size players. Further the company is dealing in hazardous products which have its own challenges.

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). Currently the company is managed by Mr. Venkataraman Thirumoorthy, Mr. Madras Ramanathan Sivaraman, Mr. Shankar Narasimhan, Mrs. Rajalakshmi Ravikrishnan, Mr. Afzal Harunbhai Malkani, Mr. Sendhil Kalyanasundaram Naathan, Mrs.

Mariam Pallavi Baldev and Mrs. Jaya Chandra Bhanu Reddy.

Unsupported Rating

Not Applicable

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, Aditya 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.

Healthy Financial Risk Profile

TIL's financial risk profile continued to remain healthy marked by healthy net worth, nil gearing and healthy debt protection metrics. The net worth of the company stood at Rs. 184.27 crore as on March 31, 2023 against Rs. 133.69 crore as on March 31, 2022. The improvement is on account of accretion of profit to reserves. The gearing of the company stood nil as on March 31, 2023 as the company remained to be a debt free company. Tanfac Industries Limited is essentially debt-free with no long-term borrowings. Whilst the Company has availed the banking facilities of fund-based and non-fund based, it is however utilising only non-fund based debt facilities in the form of Letter of Credit. Further, the Cash Credit facility that the company has availed is not being utilised. The interest expense being recorded is due to the LC facilities that the Company is utilising as per management the current limit is at ~Rs. 248 Cr. (30 Mn. USD) and utilization is at ~Rs. 150 Cr. The interest coverage ratio of TIL remained comfortable and stood at 37.26 times for FY 2023 against 39.33 times for FY 2022. The TOL/TNW ratio stood at 0.37 times as on March 31, 2023 against 0.36 times as on March 31, 2022. Going forward the leverage of the company is expected to moderate however still remain strong and below unity as the company is undertaking a CAPEX of Rs. 105 cr. to double the HF capacity which will be funded by Rs. 30 Cr. debt and remaining from internal sources.

Moderately intensive working capital cycle

Marked by GCA days of 110 the company's working capital intensity is moderate however the working capital cycle albeit moderated remains comfortable at 42 days in FY23. The inventory days of the company in FY23 stood at 65 days i.e. a minuscule increase from 62 days in FY22 likewise the debtor days increased from 28 days in FY22 to 49 days in FY23. The debtor days of the company on an average remains in the range of 50 days with FY22 being an exception as the company's sales were lower in March 2022 on account of lower production due to maintenance shutdown resulting into lower debtors outstanding. Although the company's working capital cycle is moderate company's fund based limits remains unutilized giving liquidity cushion in the form of undrawn limits of Rs. 22 Cr.

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

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. 25.95 – 62.46 crore during the three years through 2021 - 2023, while its maturing debt obligations were nil over the same period. The cash accruals of the company are estimated to remain around Rs. 71.40 – 81.05 crore during FY 2024 & FY 2025. The company's operations are working capital efficient as marked by WC cycle of 42 days for FY 2023. The current ratio of the company stands healthy at 2.93 times as on March 31, 2023 as against 2.82 times as on March 31, 2022. The liquidity is expected to be strong on the back of nil bank limit utilization in past 12 months giving adequate legroom for growth capital in the form of unutilized bank limits. Company's nil dependence on external debt shows sufficient opportunity to manage funds for the capex without much compromising the comfortable capital structure of the company. Further the company has unencumbered cash and bank balance of ~Rs. 12 cr and liquid investments of Rs. 65.62 Cr. further strengthening the liquidity of the company.

Outlook: Stable

Acuite believes that the company will continue to derive benefits from its long standing experience in the industry and business synergies with ARIL and will continue to maintain stable business operations. The outlook may be revised to 'Positive' in case the company registers significant 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	379.36	320.17
PAT	Rs. Cr.	56.13	53.28
PAT Margin	(%)	14.80	16.64
Total Debt/Tangible Net Worth	Times	0.00	0.00
PBDIT/Interest	Times	37.26	39.33

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

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.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Dec 2022	Cash Credit	Long Term	13.00	ACUITE A- Positive (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Positive (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE A- Positive (Reaffirmed)
	Letter of Credit	Short Term	44.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	9.00	ACUITE A2+ (Reaffirmed)
	Proposed Short Term Bank Facility	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Proposed Term Loan	Long Term	10.00	ACUITE A- Positive (Reaffirmed)
08 Dec 2021	Cash Credit	Long Term	4.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Cash Credit	Long Term	11.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Letter of Credit	Short Term	9.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Letter of Credit	Short Term	44.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Proposed Long Term Bank Facility	Long Term	10.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Proposed Long Term Loan	Long Term	10.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Stand By Line of Credit	Long Term	2.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)

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 avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	13.00	ACUITE A Stable Upgraded Positive to Stable (from ACUITE A-)
IDBI Bank Ltd.	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A Stable Upgraded Positive to Stable (from ACUITE A-)
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	4.00	ACUITE A Stable Upgraded Positive to Stable (from ACUITE A-)
State Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	44.00	ACUITE A1 Upgraded (from ACUITE A2+)
HDFC Bank Ltd	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A1 Upgraded (from ACUITE A2+)
IDBI Bank Ltd.	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	9.00	ACUITE A1 Upgraded (from ACUITE A2+)
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE A1 Upgraded (from ACUITE A2+)
Not Applicable	Not avl. / Not	Proposed Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE A Stable Upgraded Positive to Stable

	appl.						(from ACUITE A-)
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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.

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