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Rating Rationale

August 21, 2019 | Mumbai

Tamilnadu Petroproducts Limited

'CRISIL BBB+/Stable/CRISIL A2' assigned to bank debt

Rating Action

Total Bank Loan Facilities Rated	Rs.119 Crore
Long Term Rating	CRISIL BBB+/Stable (Assigned)
Short Term Rating	CRISIL A2 (Assigned)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has assigned its 'CRISIL BBB+/Stable/CRISIL A2' ratings to the bank facilities of Tamilnadu Petroproducts Limited (TPL).

The ratings reflect TPL's established market position in linear alkyl benzene (LAB) segment with integrated operations and strong customer relationships, and healthy financial profile. These strengths are partially offset by limited pricing flexibility due to competitive industry, susceptibility to volatility in raw material prices and exposure to risks arising from changes to regulatory policies on imports.

Analytical Approach

To arrive at the ratings, CRISIL has combined the business and financial risk profiles of TPL and its wholly-owned subsidiary and step-down subsidiaries Certus Investment and Trading Ltd, Mauritius, Certus Investment and Trading (S) Pvt Ltd, Singapore and Proteus Petrochemicals Pvt Ltd, Singapore, herein after referred to as TPL group.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

*** Established market position with integrated operations and strong customer relationships:** TPL is the third largest player in the LAB segment in terms of capacity, with a sizeable market share. The group has an established market position, mainly in southern India, with strong customer relationship. It has been supplying to Hindustan Unilever Ltd (HUL), Procter & Gamble Company (P&G) and Jyothi Laboratories Ltd (JLL) from over a decade and has regular orders.

*** Integrated operations:** The manufacturing facility is integrated. One of the major raw materials for LAB manufacturing, N-paraffin, is majorly produced in-house. This provides cost benefit to the group. The group has made use of backward integration to set-up a facility allowing it to penetrate deep into the value chain. This has resulted in the company enjoying improved efficiency.

*** Healthy financial profile:** Financial risk profile is above-average marked by healthy capital structure and robust debt protection metrics. The group's total outside liabilities to tangible network (TOL/TNW) was 0.5 time supported by healthy network of Rs 405 crore as on March 31, 2019. Debt protection metrics were also comfortable with net cash accrual to total debt and interest cover ratios of 1.80 times and 14.79 times, respectively, for fiscal 2019. The group plans to undertake a capital expenditure (capex) to expand its LAB manufacturing capacity. Gearing is expected to remain comfortable despite this capex.

Weaknesses

* Limited pricing flexibility due to competitive nature of industry:

The group operates in a commoditized industry where there is limited differentiation in product profile. There is also competition with imports; due to excess capacity and a slowdown in global markets, especially China, global players have increased their presence in the Indian market where demand is growing. LAB realisation in the domestic market is hence influenced by competition from both domestic and global suppliers. To mitigate this, the group has optimized its sales mix and focuses more on contractual sales where prices are pre-determined and less exposed to competitive pressures. Nevertheless, despite a healthy market position, the group's pricing flexibility will continue to be partly constrained by intense competition.

*** Susceptibility to volatility in raw material prices :** The operating performance of the entities in the segment is susceptible to fluctuations in the prices of key raw materials such as benzene, and kerosene, the prices of which are linked to crude oil prices. To mitigate the same the group has taken various measures in the last three years, including significantly streamlining its inventory and entering into contractual sales with its customers. This will enable the group to partly withstand cyclicity and volatility. Nevertheless, CRISIL believes that the group will remain partly vulnerable to any adverse movement in input costs and thus sustenance of the process improvement measures will be critical.

*** Exposure to risks arising from changes to regulatory policies on imports:** Imports have been reducing, in the past three years, post introduction of anti-dumping duties on certain countries in fiscal 2018 which had in turn benefitted the group. Thus, any change in regulatory policies on imports will be a key rating sensitivity factor.

Liquidity

Liquidity is adequate. In the absence of term debt obligation, cash accrual expected at over Rs 65 crore, will support liquidity. Bank limit utilization - 55% over the 12 months through March 2019 - is expected to remain comfortable on account of efficient working capital management. The group had unencumbered cash and bank balances of Rs. 188.56 crore as on March 31, 2019. However, Rs.113 crore of the total cash and equivalents are in the overseas subsidiary. The ability of the group to repatriate the funds into India without any time lag would be a key monitorable.

Outlook: Stable

CRISIL believes TPL will continue to benefit from established market position, healthy relations with customers and integrated operations. The outlook may be revised to 'Positive' if greater-than-expected increase in revenue, stable profitability strengthens business risk profile. The outlook may be revised to 'Negative' if decline in profitability or stretch in working capital cycle or any large debt-funded capital expenditure weakens financial risk profile.

About the Company

TPL was incorporated in 1984 as a joint venture between Southern Petrochemical Industries Corporation Ltd (16.9% currently) and Tamilnadu Industrial Development Corporation (17.6% currently). The company manufactures LAB (third largest manufacturer in India), caustic soda and propylene oxide at its facility in Chennai, Tamil Nadu.

Key Financial Indicators

As on / for the period ended March 31	Units	2019	2018
Operating income	Rs crore	1255	1094
Reported profit after tax (PAT)	Rs crore	57	53
PAT margins	%	4.5	4.8
TOL/TNW	Times	0.50	0.71
Interest coverage	Times	14.79	17.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	56	CRISIL BBB+/Stable
NA	Letter of Credit	NA	NA	NA	63	CRISIL A2

Annexure - List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Certus Investment and Trading Ltd, Mauritius	Full	Wholly owned subsidiary
Certus Investment and Trading (S) Pvt Ltd, Singapore	Full	Wholly owned step down subsidiary
Proteus Petrochemicals Pvt Ltd, Singapore	Full	Wholly owned step down subsidiary

Annexure - Rating History for last 3 Years

Instrument	Current			2019 (History)		2018		2017		2016		Start of 2016
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	56.00	CRISIL BBB+/Stable		--		--		--		--	--
Non Fund-based Bank Facilities	LT/ST	63.00	CRISIL A2		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	56	CRISIL BBB+/Stable	--	0	--
Letter of Credit	63	CRISIL A2	--	0	--
Total	119	--	Total	0	--

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufacturing and service sector companies
Rating Criteria for Chemical Industry
CRISILs Bank Loan Ratings
CRISILs Criteria for Consolidation
The Rating Process
Understanding CRISILs Ratings and Rating Scales

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