TGV SRAAC LIMITED

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http://www.tgvgroup.com, **CIN : L24110AP1981PLC003077**

REF:TGVSL:SECL:BSE:2023-24: October 04, 2023

M/s. BSE Limited
Phirioze Jeejeebhoy Towers
25th Floor, Dalal Street
Mumbai - 400 001

Kind Attn : DCS - CRD

Dear Sir / Madam,

Sub : Revision of Credit Rating of the Company by CARE Ratings Ltd. - Reg.

Ref : Regulation 30 of SEBI (LODR) Regulations, 2015 - Scrip Code : 507753

-x-x-x-

It is submitted that CARE Ratings Limited (Credit Rating Agency) during their review has revised the rating of the company through their Press Release dtd. 03.10.2023 (copy enclosed) as under.

S. No	Facilities	Amount (Rs.in Crore)	Existing Rating	Revised Rating
01	Long Term Bank Facilities	214.63 (Enhanced from 133.80)	CARE A; Positive (Single A; Outlook : Positive)	CARE A; Stable (Single A; Outlook : Stable)
02	Long- Term / Short Term Bank Facilities	183.80 (Reduced from 259.11)	CARE A; Positive / CARE A1 (Single A; Outlook : Positive / A One)	CARE A; Stable / CARE A1 (Single A; Outlook : Stable / A One)
03	Short Term Bank Facilities	24.20	CARE A1 (A One)	CARE A1 (A One)

Further, in compliance of Regulation 46 (2) of SEBI (LODR) Regulations, 2015 the information is being hosted on the Company's website www.tgvgroup.com

Kindly take the above on record.

Thanking You

Yours faithfully
For **TGV SRAAC LIMITED**

(V. Radhakrishna Murthy)
CGM & Company Secretary

TGV SRAAC LIMITED

Encl : As Above

TGV SRAAC Limited

October 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	214.63 (Enhanced from 133.80)	CARE A; Stable	Reaffirmed; Outlook revised from Positive
Long-term/Short-term bank facilities	183.80 (Reduced from 259.11)	CARE A; Stable/CARE A1	Reaffirmed; Outlook revised from Positive
Short-term bank facilities	24.20	CARE A1	Reaffirmed
Long-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of TGV SRAAC Limited (TGV SRAAC) continue to derive strength from its experienced promoters, its integrated manufacturing plant with proven track record in the manufacturing of chlor-alkali products, the captive power arrangement leading to relatively better control over its power cost, its established relationships with key clients and suppliers, diversified end-user industries, and the synergies derived from group companies. The ratings also factor in the significant improvement in its total operating income (TOI) and profitability in FY23 (FY refers to the period from April 1 to March 31), aided by the buoyant chlor-alkali industry scenario, leading to an improvement in its leverage and debt coverage indicators.

The ratings are, however, constrained by its susceptibility to the volatility in the prices of its raw material and sales realisation, its presence in an inherently cyclical caustic soda industry, which is currently going through a cyclical downturn, and the exposure to stringent pollution control and fire safety norms.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Scale of operations, marked by a TOI of more than ₹2,000 crore with a profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of more than 20% on a sustained basis.
- Total debt (TD)/PBILDT at less than 1x on a sustained basis.
- The ability to significantly reduce its power and fuel costs, which is one of the major cost components, by the timely expansion of its renewable power capacity.

Negative factors

- PBILDT margin falling below 15% on a sustained basis.
- Heavy dumping of caustic soda products, significantly impacting its electro-chemical unit (ECU) realisations.
- Any tightening of the prevailing pollution control or environmental norms and/or regulatory ban on the production and sales of certain major products, thereby significantly impacting its business and profitability.
- Significantly more-than-envisaged debt-funded capex or investments, leading to a TD/PBILDT of more than 2x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The revision in the outlook on the long-term rating of TGV SRAAC from 'Positive' to 'Stable' factors in the moderation in the ECU realisations from Q4FY23 onwards, which is expected to result in a moderation in the operating profitability of TGV SRAAC in the near term.

Detailed description of the key rating drivers

Key strengths

Integrated operations; improved operational performance during FY23

The operations of SRAAC are highly integrated, with the by-product of one process being used as a raw material for another product, enabling the company to optimally utilise its production capacity. This also protects the company from the effects of cyclicality in the demand for certain of its products to some extent, given a diversified product basket. The operational performance of the company improved significantly during FY23, backed by nearly full utilisation of its caustic soda and chloromethane products

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

capacities on the back of the improved industry scenario. Furthermore, due to the higher capacity utilisation along with high sales realisation, its scale of operations improved significantly by about 52% in FY23. Its caustic soda and chloromethane plants continued to operate at full capacity in Q1FY24.

Better control over power cost

The caustic soda industry is highly power intensive, whereby, power cost constitutes around 50% of the cost of production. The average cost of power to the company during FY23 was at ₹6.93 per kilowatt hour (kWh) as against ₹6.30 per kWh during FY22 due to an increase in the contribution from Andhra Pradesh Southern Power Distribution Company Limited (APSPDCL), which charges comparatively higher rates as compared to other sources. The contribution of APSPDCL increased as the operations of Andhra Pradesh Gas Power Corporation Limited (APGPCL) was halted (which is a cheaper source of power) during the year due to shortage of gas supplies from the Government of India (GoI) as there was a curtailment in the allocation of gas to power projects. However, the company has installed a 22.75-megawatt (MW) solar power plant capacity up to FY23-end and has planned to set up an additional 17.25-MW of solar power plant capacity in FY24 to increase the contribution of renewable and economical source of energy, which is likely to augur well for its long-term prospects.

Established relationships with key clients and benefits of diversified end-user industry application

The company has a long and established manufacturing track record of almost four decades in the manufacturing of chemicals. Over the years, TGV SRAAC has established long-term relationships with more than 200 clients. The products of the company have varied application across a diverse range of industries, including textile, pulp and paper, alumina, soaps and detergents, petroleum, fertilisers, pharmaceuticals, agrochemicals, water treatment, etc. Furthermore, internally, caustic soda is used for castor oil preparation, soap noodles, and chloromethane operations. Moreover, TGV SRAAC also benefits from the synergies brought about by the presence of group companies in related businesses, wherein, it procures certain raw materials from its group entities (around 20% of the total raw materials consumed during FY23) and sells some of its finished products to group concerns (8% of the net sales in FY23).

Improvement in capital structure and debt coverage indicators; expected to remain comfortable in the medium term

Upon significant improvement in the operating profitability during FY23, TGV SRAAC has rationalised its debt level, leading to an improvement in its capital structure, marked by an overall gearing of 0.22x as on March 31, 2023, vis-à-vis 0.62x as on March 31, 2022. The improved capital structure along with healthy operating profitability has led to improved debt coverage indicators, marked by a TD/PBILDT of 0.43x during FY23 vis-à-vis 1.50x during FY22. However, the company is planning to avail a further debt of ₹100 crore in FY24 to fund its planned capex of around ₹200 crore to expand its chloromethane capacity and renewable power capacity apart from its routine capex. Even after considering the same, the debt-to-equity and overall gearing is expected to remain at comfortable levels in the medium term.

Significant improvement in profitability in FY23, likely to moderate in the near term

On the back of improved capacity utilisation of its key products coupled with the buoyant chlor-alkali industry scenario, the sales realisation of its products improved significantly during FY23. It resulted in an improvement in the PBILDT margin to 23.20% during FY23. However, the net sales realisations started declining from Q4FY23 onwards. Accordingly, its PBILDT margin moderated to 11.49% in Q1FY24 and is further expected to remain moderate in the near term.

Experienced promoters

TGV SRAAC is promoted by TG Venkatesh, who is a commerce graduate and hails from an industrial and political background. He pioneered the TGV group and diversified the group from a manufacturer of industrial chemicals to other business divisions like healthcare products, aquaculture, real estate, pharmaceuticals, and hospitality. TGV SRAAC is the flagship company of the group.

Liquidity: Adequate

The liquidity position of the company is adequate, marked by sufficient cash accruals vis-à-vis its repayment obligations and current ratio of 1.29x as on March 31, 2023. The operating cycle of the company moderated but remains comfortable at 21 days in FY23 as compared to seven days in FY22. The letters of credit (LC)-backed creditors reduced to ₹103 crore in FY23 as compared to ₹170 crore in FY22, but still remains high, which results in higher reliance on non-fund-based limits. The average utilisation of the fund-based working capital limits and non-fund-based limits remained comfortable at 44% and 65%, respectively, for the last 12 months ended July 31, 2023. The liquidity of the company is also supported by positive cash flows from operations.

Key weaknesses

Presence in an inherently cyclical caustic soda industry putting pressure on profitability

The caustic soda industry is inherently cyclical. The industry witnessed a cyclical downturn after H1FY20, which was further exacerbated during FY21 owing to the COVID-19 pandemic-related contraction in demand from major end-use industries. The ECU realisations dropped to a decadal low level of around ₹23,000 per metric tonne (MT) in FY21. However, from March 2021 onwards, the sector had seen a revival with an improvement in demand from end-user industries and better availability of raw materials, leading to a rebound in the ECU realisations. After peaking out in November 2022, the ECU realisations started cooling down and reached ₹40,500 per MT in July 2023 due to moderation in demand, lower energy prices, and increased supply, which shows the cyclicality associated with the industry, and the same is a key monitorable.

Exposure to raw material price volatility and foreign currency fluctuation risk
The primarily raw materials for TGV SRAAC are potassium chloride, palm fatty acids and related oils, castor oil, etc, which form around 20-25% of the cost of production. The key raw materials are price sensitive and highly volatile. Thus, its profitability is susceptible to the volatility in the prices of raw materials. During FY23, TGV SRAAC imported raw materials and capital goods worth ₹184.11 crore (₹113.93 crore in FY22) against which it made exports of ₹72.38 crore in FY23 (₹28.22 crore in FY22), thus partially hedging its foreign currency exposure naturally. Furthermore, the lag between the change in the prices of raw materials and the reset of finished goods prices impacts the profitability of the company.

Stringent pollution control and fire safety norms
Being present in the chemical industry, the operations of the company are subject to various environment-related regulatory compliances in a stringent manner. Also, pollution and fire safety-related norms are evolving day-by-day in India. Accordingly, the continuous adherence to defined norms are mandatory for seamless operations. The company is continuously taking steps towards adherence of these norms. Furthermore, to reduce the use of its carbon footprint, it is gradually expanding its renewable power portfolio.

Environment, social, and governance (ESG) risks

Risk Factors	Actions taken by the company
Environmental	• The manufacturing plant of the company is in compliance with the defined pollution control norms and has all the requisite approvals in place. • The company was awarded the ISO 9002, 14001 certification by the renowned institution, Det norske veritas (DNV). It implies that the company is adhering to standard procedures to ensure pollution control, balance, and the implementation of safety-related aspects. • In order to reduce the use of its carbon footprint, the company is gradually expanding its renewable power portfolio by installing a solar power plant.
Social	• The company's industrial relations continue to be harmonious and cordial. • Notably, 97 training programmes on occupational health, safety, and skill development were organised for all categories of employees. • As against the CSR obligation of ₹1.59 crore for FY23, the company incurred actual expenses of ₹3.23 crore.
Governance	• The company is managed by a professional board of directors who have extensive experience in industry. The board comprises six directors. There is 50% representation of women in board. The independent directors are more than 50% of the total number of directors. • There is an audit committee, nomination and remuneration committee, stakeholder relationship committee, and risk management committee in place.

Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry
Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals and petrochemicals	Commodity chemicals

Incorporated on July 24, 1981, TGV SRAAC belongs to the TGV Group of Industries promoted by TG Venkatesh. TGV SRAAC is primarily engaged in the business of manufacturing chemicals like caustic soda, caustic potash, sodium hypochlorite, chlorine, hydrochloric acid, hydrogen gas, and chloromethane products, among others. The company also manufactures castor oil derivatives, fatty acids and consumer products, mainly toilet soaps, and is also into power generation. The manufacturing plant of the company is certified by the ISO 9002, ISO 14001, and OHSAS 18001 system certifications.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	1,525	2,326	415
PBILDT	306	539	48
PAT	135	362	20
Overall gearing (times)	0.62	0.22	NA
Interest coverage (times)	8.72	17.75	9.60

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	41.91	CARE A; Stable
Fund-based - LT-Term Loan		-	-	31/03/2027	172.72	CARE A; Stable
Fund-based - LT-Working Capital Demand loan		-	-	-	0.00	Withdrawn
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	12.65	CARE A1
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	10.75	CARE A1
Fund-based - ST-FBN / FBP		-	-	-	0.80	CARE A1
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	14.05	CARE A; Stable / CARE A1
Non-fund-based - LT/ ST-Letter of credit		-	-	-	169.75	CARE A; Stable / CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	172.72	CARE A; Stable	-	1)CARE A; Positive (06-Oct-22)	1)CARE A-; Stable (31-Dec-21)	1)CARE A-; Negative (18-Jan-21) 2)CARE A-; Negative (23-Dec-20)

2	Fund-based - LT-Working Capital Demand loan	LT	-	-	-	1)CARE A; Positive (06-Oct-22)	1)CARE A-; Stable (31-Dec-21)	1)CARE A-; Negative (18-Jan-21) 2)CARE A-; Negative (23-Dec-20)
3	Fund-based - LT-Cash Credit	LT	41.91	CARE A; Stable	-	1)CARE A; Positive (06-Oct-22)	1)CARE A-; Stable (31-Dec-21)	1)CARE A-; Negative (18-Jan-21) 2)CARE A-; Negative (23-Dec-20)
4	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	12.65	CARE A1	-	1)CARE A1 (06-Oct-22)	1)CARE A2+ (31-Dec-21)	1)CARE A2+ (18-Jan-21) 2)CARE A2+ (23-Dec-20)
5	Fund-based - ST-FBN / FBP	ST	0.80	CARE A1	-	1)CARE A1 (06-Oct-22)	1)CARE A2+ (31-Dec-21)	1)CARE A2+ (18-Jan-21) 2)CARE A2+ (23-Dec-20)
6	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	10.75	CARE A1	-	1)CARE A1 (06-Oct-22)	1)CARE A2+ (31-Dec-21)	1)CARE A2+ (18-Jan-21) 2)CARE A2+ (23-Dec-20)
7	Non-fund-based - LT/ ST-Letter of credit	LT/ST*	169.75	CARE A; Stable / CARE A1	-	1)CARE A; Positive / CARE A1 (06-Oct-22)	1)CARE A-; Stable / CARE A2+ (31-Dec-21)	1)CARE A-; Negative / CARE A2+ (18-Jan-21) 2)CARE A-; Negative / CARE A2+ (23-Dec-20)
8	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	14.05	CARE A; Stable / CARE A1	-	1)CARE A; Positive / CARE A1 (06-Oct-22)	1)CARE A-; Stable / CARE A2+ (31-Dec-21)	1)CARE A-; Negative / CARE A2+ (18-Jan-21) 2)CARE A-; Negative / CARE A2+ (23-Dec-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

3	Fund-based - LT-Working Capital Demand loan	Simple
4	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
5	Fund-based - ST-FBN / FBP	Simple
6	Non-fund-based - LT/ ST-Bank Guarantee	Simple
7	Non-fund-based - LT/ ST-Letter of credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in