CCAL
CHEMFAB ALKALIS LIMITED
(Formerly Known as Teamec Chlorates Limited)

REF: CHEMFAB/SEC/2024-2025 **31st January 2025**

BSE Limited
Corporate Relationship Department
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai- 400 001.
BSE – Scrip Code: 541269

National Stock Exchange of India Limited
The Manager, Listing Department
"Exchange Plaza"
Bandra - Kurla Complex, Bandra (E)
Mumbai - 400 051
NSE Symbol: CHEMFAB

Sub: Intimation of Credit Rating under Regulation 30 of the SEBI (Listing Regulations and Disclosure Requirements) Regulations, 2015.

Pursuant to Regulation 30 of the SEBI (Listing Regulations and Disclosure Requirements) Regulations, 2015, we wish to inform you that India Ratings and Research (Ind-Ra) has assigned the following ratings in respect of the Company's banking facilities.

Instrument Description	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Fund-based working capital limit	-	-	-	INR300	IND A-/Stable/IND A2+	Assigned
Non-fund-based working capital limit	-	-	-	INR500	IND A2+	Assigned
Term loan	-	-	31 March 2030	INR873	IND A-/Stable	Assigned

We are also enclosing the credit rating letter issued by India Ratings and Research (Ind-Ra).

Request you to kindly take the above information on record.

Thanking You,

Yours Faithfully,

For CHEMFAB ALKALIS LIMITED
B VIGNESH RAM
Digitally signed by B VIGNESH RAM
Date: 2025.01.31 14:52:50 +05'30'

B. Vignesh Ram
Company Secretary & Compliance officer

India Ratings & Research
A Fitch Group Company

India Ratings Assigns Chemfab Alkalis's Bank Facilities 'IND A-'; Outlook Stable

Jan 30, 2025 | Commodity Chemicals

India Ratings and Research (Ind-Ra) has rated Chemfab Alkalis Limited's (CAL) Bank facilities as follows:

Details of Instruments

Instrument Description	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Fund-based working capital limit	-	-	-	INR300	IND A-/Stable/IND A2+	Assigned
Non-fund-based working capital limit	-	-	-	INR500	IND A2+	Assigned
Term loan	-	-	31 March 2030	INR873	IND A-/Stable	Assigned

Analytical Approach

Ind-Ra has fully consolidated CAL's wholly-owned subsidiary, Chemfab Alkalis Karaikal Limited (CAKL), to assign the ratings, because of the strong operational and strategic linkages between CAL and CAKL.

Detailed Rationale of the Rating Action

The ratings reflect CAL's comfortable consolidated business profile, supported by a diversified product mix with the presence of caustic soda and allied products, and oriented poly vinyl chloride (OPVC) pipes in its portfolio. The diversification provides some protection from the inherent volatility and cyclicality in the individual segments. OPVC pipes is a high-margin business, and its contribution is likely to increase in the overall revenue mix in the near-to-medium term. However, the company's operational performance weakened over FY24-1HFY25, owing to a fall in realisations in the caustic soda segment, resulting in a sharp fall in the EBITDA from the cyclical high of FY23. The fall in profitability was somewhat offset by the strong performance in the pipe segment. CAL increased capacity in the pipe segment in 1HFY25 and is likely to expand further in FY26 to cater to the growing demand. The company had a low net leverage of less than 1.0x over FY20-FY24, but the capacity addition in the pipe segment has resulted in incremental debt. While the net leverage increased in 1HFY25, it is likely to remain comfortable as the internal accruals improve and fund a part of the ongoing capex.

The ratings are, however, constrained by CAL's small scale of operations and inherent price volatility in commodity chemicals.

List of Key Rating Drivers

Strengths

- Diversified product mix protects against segmental volatility; share of pipes business to increase in near term
- Caustic business likely to recover in FY26 from bottom of the cycle performance in FY25

- OPVC pipes business to be key growth driver; sustainability of high margins monitorable
- Credit metrics to remain comfortable, despite capex
- Low net working capital historically, some increase likely but debtor ageing comfortable

Weaknesses
- Medium scale of operations
- Profitability exposed to inherent volatility in commodity prices

Detailed Description of Key Rating Drivers

Diversified Product Mix Protects Against Segmental Volatility; Share of Pipes Business to Increase in Near Term: CAL has a diversified product base with the presence of caustic soda and allied products, and OPVC pipes in its portfolio. The diversification provides some protection from the inherent volatility and cyclicality of the individual segments, given the different dynamics of the two segments. The demand in the OPVC pipe segment is driven by the government's focus on water and sanitation projects, mainly under the Jal Jeevan Mission, while demand for caustic soda is driven by segments such as textiles, alumina, surfactants, among others. The chemicals business accounted for an average of 80% of the revenue over FY19-FY23 but the pick-up in the OPVC pipe business after successful registration for government projects led to a reduction in the reliance on the chemical segment to 62% in FY24 and further to 59% in 1HFY25. With a continued expansion in the pipes business, Ind-Ra expects the contribution from the chemical segment to reduce to 50% by FY26 and to around 40% in FY27.

The EBITDA share of the two businesses has fluctuated, given the volatility in the chemicals business, leading to a significant decline in the consolidated EBITDA to INR539 million in FY24 (FY23: INR1,105 million). While the profitability in the chemicals business fell sharply to INR169 million in FY24 (FY23: INR1,034 million, FY22: INR526 million) due to a moderation in realisation, the OPVC pipe segment registered substantial profitability growth to INR370 million (INR71 million, INR40 million), driven by increased volumes and margins. During 1HFY25, the OPVC pipe segment registered EBITDA of INR243 million while the caustic business witnessed an EBITDA loss of INR11 million due to low caustic prices. This, combined with the losses in the aluminium chloride business in the subsidiary due to the nascent stage of operations, resulted in the overall EBITDA falling to INR184 million in 1HFY25 (1HFY24: INR264 million).

Caustic Business Likely to Recover in FY26 from Bottom of the Cycle Performance in FY25: After witnessing a strong year of supernormal profitability in FY23, CAL's EBITDA from the chemical segment fell sharply to INR4.2/kg in FY24 (FY23: INR22/kg, FY22: INR11.6/kg) as caustic soda realisations plummeted to INR40.4/kg (INR61.3/kg, INR49.7/kg). The oversupply led to a continued correction in caustic soda prices in 1HFY25 with realisations falling to INR37.4/kg, which coupled with an increase in the power tariff from mid-June 2024 led to an EBITDA loss. Prices witnessed some uptick October 2024 onwards and Ind-Ra expects some recovery in the segment in FY26. However, with the overall slowdown in global demand and oversupply situation in India, Ind-Ra expects recovery in this segment to be gradual with profitability remaining lower than the mid-cycle average in the near term.

Furthermore, the company is replacing its electrolyser which will reduce power consumption, leading to costs savings. In addition, it is increasing the consumption of chlorine with gradual stabilisation and ramp-up of the capacity at the aluminium chloride facility of its subsidiary, which started operations in February 2024. The company's electrochemical unit (ECU) realisations have been higher than the industry average, given the lower negative contribution of chlorine owing to the locational advantage and the 10 kilo tonne per annum (KTPA) aluminium chloride plant can consume 8KT of chlorine at full capacity. The company has also appealed at the Appellate Tribunal for Electricity against the power tariff order; a favourable outcome could aid EBITDA.

OPVC Pipes Business to be Key Growth Driver; Sustainability of High Margins Monitorable: CAL witnessed a surge in OPVC pipe sales volumes to 5.2KT in FY24 (FY23: 1.2KT) as it successfully empanelled its products for the government's Jal Jeevan Mission projects. With strong realisations and low polyvinyl chloride (PVC) resin prices, the segment's EBITDA rose to INR71/kg in FY24 (FY23: INR60.7/kg, FY22: INR24.3/kg) and further to INR92.2/kg in 1HFY25 with margins of 37%. CAL is a government-approved supplier of OPVC pipes for Jal Jeevan Mission in 12 states, of which it has a strong presence in Tamil Nadu, Chhattisgarh and Karnataka. CAL is planning to strengthen its presence in other states. The high margins are led by the presence of a limited number of approved suppliers for the grade due to the long approval time and technological tie-up required. However, with PVC prices likely to bottoming out in FY25 and Directorate General of Trade Remedies's recommendation of anti-dumping duty, CAL's ability to sustain strong margins would be monitorable. However, Ind-Ra draws comfort from the significant headroom available in the margins to absorb some increase in input costs.

As of November 2024, the company's order book of INR728 million is to be executed by March 2025 and INR520 million to be executed by March 2026. Moreover, there is a continuous inflow of new tenders throughout the year, providing strong revenue visibility. OPVC pipes provide replacement to traditional ductile iron pipes, and hence, have market potential. CAL undertook capex to increase its capacity to 14KTPA in FY25 from 6KTPA and plans to increase it further to 20KTPA in FY26, which will aid the business growth and stable profitability for CAL. The timely ramp-up of the added capacities would remain a key rating monitorable.

Credit Metrics to Remain Comfortable despite Capex: Strong cash flows and low working capital requirements over FY19-FY24 resulted in low reliance on external debt for CAL. Net working capital requirements were low at INR100 million in FY24 (FY23: INR110 million, FY22: INR131 million), which was 3% of revenue (3%, 5%). Thus, the net debt requirements remained low at INR159 million at FYE24 (FYE23: net cash, FYE22: INR46 million), leading to strong credit metrics with net leverage of 0.3x in FY24 (FY23: net cash, FY22: 0.1x). The interest coverage (EBITDA/interest cost) also remained strong at 57x in FY24 (FY23: 460x, FY22: 56x). However, with a capex of around INR1.7 billion incurred over FY24-1HFY25 to increase the pipes capacity, coupled with the fall in EBITDA, the net debt rose to INR790 million at end-September2024, resulting in deterioration in the trailing 12-month net leverage of 1.7x.

Furthermore, the company is replacing electrolyser for the caustic plant and adding two lines of OPVC pipes to increase capacity to 20KTPA by FY26 (1HFY25: 14KTPA). The total investment towards these projects is likely to be INR1.3 billion, a large part of which would be incurred in FY26. The funding is yet to finalised but is likely to be a mix of debt and internal accruals. As a result, while the net leverage is unlikely to return to the levels seen over FY19-FY24, the additional cash flows from the expansion and recovery in the caustic business would keep the credit metrics comfortable. While the company plans to continue its growth journey in the OPVC pipe segment, Ind-Ra takes comfort from the management's articulation to keep the net debt at around INR1 billion.

The company has earlier planned to setup a greenfield project of 250 tonnes per day caustic soda capacity in Karaikal under its subsidiary; however, given the market conditions, the same has been put on hold and is unlikely to be undertaken in the near term.

Low Net Working Capital Historically, Some Increase Likely but Debtor Ageing Comfortable: In the chemical segment, CAL has a mix of direct customers and dealers, whereas in the OPVC pipe segment, 80% of the customers are engineering, procurement and construction contractors participating in government tenders. The chemical segments have a lean working capital cycle, reflected in the net working capital cycle of 3%-5% of revenue over FY19-FY24 (FY24: 3%). While the working capital cycle could witness some increase (1HFY25: 7% of revenue) with the share of OPVC pipe business in the revenue increasing, Ind-Ra draws comfort from the timely debtor realisation as reflected in debtor ageing of less than three months for about 85% of the debtors outstanding as of 30 September 2024 (31 March 2024: 25%). The customer base is moderately diversified with the top 10 customers accounting for around half of the revenue over FY24-1HFY25. Supplier reliance was lower, with the top 10 suppliers contributing 25% to the purchase.

Medium Scale of Operations: CAL's scale of operations was medium with an average EBITDA of INR0.5 billion-0.6 billion over FY19-FY24 (FY24: INR0.5 billion), barring FY23 when EBITDA crossed INR1 billion owing to the sharp rise caustic soda prices. Ind-Ra expects the EBITDA to gradually increase, as the new OPVC pipe capacities ramp-up and the caustic business recovers. The consolidated revenue stood at INR3.3 billion in FY24 (FY23: INR3.3 billion) which is likely to grow to a little under INR4 billion in FY25.

Profitability Exposed to Inherent Volatility in Commodity Prices: The profitability of the caustic segment remains susceptible to the inherent volatility and cyclicality in product prices, demand-supply balance and chlorine demand. The volatility in realisations resulted in significant fluctuations in the segmental EBITDA of caustic soda over FY21-FY24. Furthermore, the profitability of the OPVC pipe division is linked to PVC resin prices, which is linked to the global and domestic demand-supply scenario as well as trade protection measures instituted by the government, that results in significant volatility in the PVC prices.

Liquidity

Adequate: The monthly average utilisation of its fund-based working capital limits of INR300 million stood at about 13% in the 12 months ended October 2024, with nil utilisation till May 2024, indicating its low reliance on external working capital debt and the availability of adequate liquidity cushion. The average utilisation of its non-fund-based limits was 53% during the period. Ind-Ra expects the working capital use to have been on similar lines since then. The cash flow from operations remained positive in FY24, despite plunging to INR339 million (FY23: INR949 million, FY22: INR548 million) due to the fall in EBITDA. Although the shift in revenue mix towards the OPVC pipe segment could lead to an increase in working capital requirements but the high margins in the segment would ensure healthy cash flows. The company has sanctioned term loans of INR693 million for the recently completed OPVC pipes expansion, of which INR543 million was drawn till end-September 2024. The company has scheduled debt repayments of INR65 million in FY25 and INR137 million, each, in FY26 and FY27. Ind-Ra expects CAL to generate sufficient cash flows to meet its scheduled term loan repayments. The company had unencumbered cash and equivalents of INR23 million at FYE24 (FYE23: INR10 million), which fell to INR2 million at 1HFYE25 as the funds were used to fund the capex.

Rating Sensitivities

Positive: Timely ramp-up of operations and a steady increase in the EBITDA while improving the credit metrics with the net leverage reducing below 1.5x, all on a sustained and consolidated basis, could lead to a positive rating action.

Negative: Delay in ramp-up of capacities and/or weakness in existing businesses leading to a weaker-than-expected profitability and/or a rise in the net debt, the net leverage exceeding 2.25x on a consolidated and sustained basis, and any deterioration in liquidity position would lead to a negative rating action.

Any Other Information

Standalone Profile: During 1HFY25, the company posted revenue of INR1,550 million (1HFY24: INR1,587 million, FY24: INR3,273 million), EBITDA of INR231 million (1HFY24: INR281 million, FY24: INR576 million) and gross interest coverage of 13x (1HFY24: 285x, FY24: 62x).

About the Company

Incorporated in 1983 and amalgamated vide NCLT order in 2017, CAL manufactures caustic soda and allied products (chlorine, hydrogen, sodium hypo chlorite, and hydrochloric acid), and OPVC pipes. As of September 2024, the company had an installed capacity of 65.7KTPA of caustic soda in Puducherry and a 14-KTPA OPVC pipes plant in Sricity (Andhra Pradesh).

Incorporated in December 2019, CAKL is a wholly owned subsidiary of CAL and is engaged in the manufacturing of chemicals. Its aluminium chloride plant with an installed capacity of 10KTPA was setup and commissioned in February 2024.

Key Financial Indicators

Particulars (INR million; Consolidated)	1HFY25	FY24	FY23
Revenue	1,584	3,273	3,314
EBITDA	184	539	1,105
EBITDA margin (%)	11.6	16.5	33.3
Interest coverage (x)	8.6	57.3	460.3
Net leverage (x)	-	0.3	net cash

Source: CAL, Ind-Ra

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Rating/Outlook
Fund-based working capital limit	Long-term/Short-term	INR300	IND A-/Stable/IND A2+
Non-fund-based working capital limit	Short-term	INR500	IND A2+
Term loan	Long-term	INR873	IND A-/Stable

Bank wise Facilities Details

The details are as reported by the issuer as on (30 Jan 2025)

#	Bank Name	Instrument Description	Rated Amount (INR million)	Rating
1	HDFC Bank Limited	Fund Based Working Capital Limit	100	IND A-/Stable/IND A2+
2	HDFC Bank Limited	Non-Fund Based Working Capital Limit	150	IND A2+
3	Axis Bank Limited	Fund Based Working Capital Limit	100	IND A-/Stable/IND A2+
4	Axis Bank Limited	Non-Fund Based Working Capital Limit	150	IND A2+
5	Shinhan Bank	Fund Based Working Capital Limit	100	IND A-/Stable/IND A2+
6	Standard Chartered bank	Non-Fund Based Working Capital Limit	200	IND A2+
7	HDFC Bank Limited	Term loan	378	IND A-/Stable
8	HDFC Bank Limited	Term loan	180	IND A-/Stable
9	HDFC Bank Limited	Term loan	315	IND A-/Stable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limit	Low
Non-fund-based working capital limit	Low
Term loan	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

Contact

Primary Analyst
Mahima Jain
Analyst
India Ratings and Research Pvt Ltd
DLF Epitome, Level 16, Building No. 5, Tower B DLF Cyber City, Gurugram Haryana - 122002
1246687268
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Siddharth Rego
Associate Director
+91 22 40356115

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

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APPLICABLE CRITERIA AND POLICIES

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates