CHEMFAB ALKALIS LIMITED
(Formerly Known as Teamec Chlorates Limited)

REF: CHEMFAB/SEC/2023-2024 **02nd February 2024**

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 Care Ratings Limited has assigned the following ratings in respect of the Company's banking facilities.

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	49.50	CARE A-; Stable	Assigned
Long Term Bank Facilities	20.00	CARE A-; Stable	Reaffirmed
Short Term Bank Facilities	50.00 (Enhanced from 20.00)	CARE A2+	Reaffirmed

We are also enclosing the credit rating letter issued by Care Ratings Limited.

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: 2024.02.02 19:15:30 +05'30'

B. Vignesh Ram
Company Secretary & Compliance officer

Certificate. No. OHS 66228 / EMS 71746
An OHSAS 18001 and ISO 14001 Certified Company

CIN No.: L24290TN2009PLC071563
Member - Dr. Rao's Group of Companies
Regd. Off: 'TEAM House', GST Road, Vandalur, Chennai - 600 048, India.
Plant : "Gnanananda Place", Kalapet, Puducherry - 605 014, India Ph : +91 413 2655111,
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Responsible Care®

Chemfab Alkalis Limited

February 01, 2024

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Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Chemfab Alkalis Limited (CAL) continue to derive comfort from the experienced promoters and management, long track record of operations in the caustic soda business, diversified client base across industries and comfortable capital structure. The ratings take into account the decline in the TOI from the caustic segment H1FY24 after a significant increase in FY23 (refers to the period April 1 to March 31). However, the company has seen an improvement in its oriented-polyvinyl chloride (PVC-O) pipes segment in H1FY24 with improved government-related orders flowing in. The PVC-O segment is expected to scale up operations significantly in the near term and thereby cushion the expected drop in the chemical segment.

The ratings are constrained by the inherent volatility present in realisations of electro chemical units (ECU) and exposure of margins to volatile raw material prices. The ratings also take note of the envisaged expansion of PVC-O pipes capacity in CAL and the proposed large debt-funded green-field project under its wholly-owned subsidiary.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- Commencement of operations on the enhanced capacity and achieving envisaged TOI on the new capacity with TOI reaching over ₹500 crore.
- Sustained increase in profitability with return on capital employed (ROCE) over 15% on a sustained basis

Negative Factors

- Drop in ECU realisation leading to significant reduction in the cash accruals.
- Larger than envisaged debt funded capex impacting the financial risk profile with net debt to PBILDT increase above 3x
- Any inordinate delay in the execution of the projects or large cost escalation

Analytical approach: Consolidated

Consolidated with its Wholly Owned subsidiary Chemfab Alkalis Karaikal Limited.

CARE has revised the approach to consolidated approach since a significant portion of equity for the projects in the subsidiary has been infused by CAL. the projects in the subsidiary are progressing and would account for significant portion of the capital employed going forward.

Outlook: Stable

CARE Ratings expects that CAL would continue to maintain its risk profile aided by the improvement in the PVCO segment.

Detailed description of the key rating drivers:

Key Strengths

Experienced promoters and management

CAL was promoted by late Dr C H Krishnamurthi Rao, who was a technocrat and an industrial entrepreneur. His son, Suresh Krishnamurthi Rao, a management graduate with more than three decades of experience, is the current Chairman of CAL. CAL's day-to-day operations are managed by V M Srinivasan, CEO of the company, who has almost three decades of experience in plastics and chemical business.

Long track record of operations in chlor-alkali business:

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

The company's Pondicherry plant has a track record of more than four decades in the production of caustic soda. The caustic soda unit at Pondicherry is one of the early adopters of membrane cell technology for electrolysis of salt, which is relatively less polluting and energy efficient. The plant was initially started with 25 tonnes per day (TPD) capacity in 1985 and subsequently expanded in various phases over the years to 185TPD as on September 30, 2023. The capacity utilisation levels had been comfortable at more than 80% during the last few years. Further, The chlorine demand dictates the utilisation of caustic soda as disposal of chlorine is a major issue faced by industry. The operation of CAL is integrated with by-product of one process used as raw material (Chlorine) for another process (Hydrochloric Acid), enabling the company to optimally utilize its production capacity.

Diversification in clientele across various industries:
CAL's chlor-alkali products find application across various industries like textiles, fast-moving consumer goods (FMCG), petrochemicals, acids and chemicals, pharmaceutical and paper industries, which keeps its client profile moderately diversified. While the prices have remained volatile, the company's sales volume has been stable due to such diversification in industries.
The company's major customers in PVC-O pipes segment currently are from the private sector, mainly farmers' associations for irrigation projects. However, the company has now diversified order book from engineering, procurement and construction (EPC) contractors who are under-taking water supply-related government projects as well contributing to about 70-80% of the order book.

Improvement in PVCO segment cushioning the fall in the chemicals segment:
On the back of buoyant industry scenario for caustic soda, the realisations of ECU have significantly improved which has aided CAL's TOI and profitability in FY23. From Q4FY23 onwards, there has been a fall in the caustic soda prices leading to fall in revenue from chemical segment for CAL as well. In H1FY24, the company has recorded a TOI of Rs. 107 crore from chemical segment as against Rs. 160 crore in H1FY23. However, this fall in the revenue from Chemical segment has been offset by improvement in the PVCO segment.
CAL diversified its product profile beyond chemicals and had forayed into the PVC-O pipes segment with a production line in Sricity, Andhra Pradesh, from December 2018. The utilisation and sales in this remained very low until FY23 due to COVID-19-related disruptions and delays in the government approvals and registrations. However, with the government approval in place and PVCO pipes being added in the Schedule of Rates of Government for Government projects, the sales has seen an uptick in FY24. The TOI from this segment stood was at ₹ 51 crore in H1FY24 as against a whole year FY23 TOI of ₹ 38 crore.

Key Weaknesses:
Inherent cyclicality in caustic soda industry:
As the chlor-alkali and inorganic chemicals are commodity by nature, the prices are governed by international and domestic demand/supply conditions, and CAL's profitability margins are exposed to volatile ECU realisations. Furthermore, 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 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 FY23, the ECU realisations started cooling down in FY24.

Margins exposed to raw material price volatility and high power cost:
The key raw materials are price sensitive and highly volatile. In FY22, FY23 and FY24, due to good monsoon and intermittent rains, salt production got impacted in the South India. Consequently, the prices of salt has seen an increase and due to sourcing form Gujarat, there has been an increase in associated freight expenses. Further, in the PVCO segment, the PVC resin prices have seen a significant increase in FY22 due to global supply disruptions, however, it has cooled off since then in FY23.

Another major parameter determining the profitability is the power cost. The caustic soda industry is highly power intensive, whereby power cost constitutes around 30%-40% of the cost of sales. This has been maintained at similar levels as CAL's power supply and pricing has been fairly stable over the past years owing to the reliance on the grid power from the Union Territory of Puducherry.

Capital expenditure projects in company and its subsidiary:
Project in Standalone level:
The company has completed capacity expansion and debottlenecking of its caustic soda plant to 185TPD in FY23. In its PVCO segment, the company has plans to increase its capacity from existing capacity of 6000MT to 14000MT in two phases. The company currently has two lines which produce pipes of 400mm diameter specification. Capital expenditure for a third line for 630 mm diameter with a capacity of 5000MT with an overall cost of ₹ 35 crore of which ₹ 31.5 crore is funded through debt. This is to be commissioned by Q4FY24. Further, an additional line with a capacity of 3000MT is likely to be put up in FY25.

Green-field project under Subsidiary:
The company is planning to set-up an integrated green-field project in Karaikal under its wholly-owned subsidiary, Chemfab Alkalis Karaikal Limited (CAKL). The project envisages 250 TPD caustic soda capacity, desalination plant and production of chlorine derivative (aluminium chloride). The project is already in progress and is to be implemented in phases with aluminium chloride unit to be set up in the first phase with a capacity of 10,000 TPA. The company has already finished setting up of the Aluminium Chloride Plant at a cost of about ₹ 50 crore and is expected to commence by end of January 2024 as against earlier expectation of Q2FY24. This unit is expected to be consuming Chlroine from the current caustic soda plant in standalone books and later, the increased chlorine production from the new capacity in this project.
The total project cost which is around ₹ 563 crore. The company has already spent about ₹ 90 crore in the project entirely out of internal accruals as on Nov 2023. CAL has infused about ₹ 100 crore as on November 30, 2023 as equity and preference shares in CAKL of which ₹ 90 crore has been spent on the project. The subsidiary is expected to take a debt of about ₹ 400 crore and the rest is to be funded through equity infusion from CAL. The debt is yet to be tied up. Financial closure and progress of the project shall continue to be a monitorable from a credit perspective.

Competition from established players:
CAL is relatively a small player in the caustic soda market and faces competition from the other large domestic players apart from the competition from the imports. However, it is to be noted that the chlor-alkali industry is mostly a regional one as transporting to a long distance will not be feasible and adds to the logistics cost; and therefore, the competition is limited in South India with fewer players.

Liquidity: Adequate
The liquidity position of CAL is adequate with comfortable accruals of around ₹90-100 crore with negligible debt repayment obligations. The company also has cash and liquid investments of ₹55.21 crore as on March 31, 2023. The company's operating cycle also remains low at 10 days with less than 2% utilisation of its working capital facilities.

Prospects
Caustic soda is a vital chemical used in various industrial processes in its key end-use industries like textiles, pulp and paper, aluminium, pharmaceuticals, agrochemicals, etc. The sales realisation of companies in the domestic caustic soda industry which had improved significantly FY22 and FY23 where the ECU realisations have peaked out, are now seeing decline in caustic soda prices leading to significant drop in realisations in FY24 The realisations are expected to remain at similar levels in the next two quarters. Due to inherent cyclicality, there always persists a continuous threat of industrial downturn in such a commoditised chemical industry like caustic soda which poses a threat to the profitability of the companies in the industry.

The Indian plastic pipes and fittings industry derives demand from the construction and irrigation sectors, substitution of metal pipes with polymer pipes, and replacement demand. The irrigation sector is one of the key end-user segments for plastic pipes, especially for PVCO pipes, which is a replacement for ductile iron pipes. Furthermore, the demand is expected to come from public-sector projects undertaken by the central, state and municipal-level bodies as well as private sector investments in water management.

Going forward, the company along with its subsidiary has large capital expenditure plans which would require an outflow for the CAL. CAL's accruals have improved over FY23 however, there has been a declining trend over H1FY24 owing to the volatile nature of the chlor-alkali industry. The continued ability of the company to sustain the improvement in the PVCO business and maintain stable internal accruals will be key to its ability to support the expansion and investments in the subsidiaries.

Environment, social, and governance (ESG) risks:

	Risk factors
Environmental	• The manufacturing plant of the company is in compliance with the defined pollution control norms and has all the requisite approvals in place. • CAL is one of the first chlor-alkali plant to be certified for ISO 450001 and 14001 and CAL is using the environmental management system as a tool to manage the impact of organisational activities.
Social	• The company has organised oxygen generating station during the second wave of Covid 19. The company provides social improvement projects in Maharashtra. • Regular on-site and off-site mock drills, intensive 45 hours of training for every CCAL employees
Governance	• The company is in compliance with requirement of regulations 24 to 27 of SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015. • The board comprises 8 directors of which 4 are independent director. There is an audit committee, nomination and remuneration committee, stakeholder relationship committee, and risk management committee in place.

Applicable criteria

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

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Commodity Chemicals

Chemfab Alkalis Limited (CAL) has been operational from 1983. Prior to March 2017, the sodium chlorate plant was under 'Teamec Chlorates Limited' (TCL), which was operational from 2012. Teamec acquired Chemfab Alkalis Limited with effect from March 30, 2017, and subsequently changed its name to CAL in July 2017. CAL has currently suspended the operations of sodium chlorate plant.
As on Sep 2023, CAL has an installed capacity of 185 TPD of caustic soda in Pondicherry and 6000 MTPA of PVCO-Pipes Plant in Sricity (Andhra Pradesh). CAL also produces chlorine, hydrogen, sodium hypo chlorite, and hydro chloric acid as by-products from manufacture of caustic soda.

Brief financials (Rs. Crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total Operating income	271.59	331.36	158.67
PBILDT	57.96	110.98	31.50
PAT (after deferred tax)	28.75	64.58	13.81
Overall gearing ratio(times)	0.03	0.01	0.06
Interest coverage(times)	51.65	214.29	465.76

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of 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		-	-	-	20.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	Mar 2028	49.50	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	50.00	CARE A2+

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	Non-fund-based - ST-BG/LC	ST*	50.00	CARE A2+	-	1)CARE A2+ (07-Nov-22)	1)CARE A2+ (05-Oct-21)	1)CARE A2+ (16-Oct-20)
2	Fund-based - LT-Term Loan	LT**	-	-	-	-	-	1)CARE A-; Stable (16-Oct-20) 2)Withdrawn (16-Oct-20)
3	Fund-based - LT-Cash Credit	LT	20.00	CARE A-; Stable	-	1)CARE A-; Stable (07-Nov-22)	1)CARE A-; Stable (05-Oct-21)	1)CARE A-; Stable (16-Oct-20)
4	Fund-based - LT-Term Loan	LT	49.50	CARE A-; Stable				

* Short term; **Long term

Annexure-3: Detailed explanation of 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	Non-fund-based - ST-BG/LC	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.

Contact Us

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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.

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