April 24, 2023 (Revised)

Transpek Industry Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	[ICRA]A+ (Stable); assigned
Total	-	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating considers Transpek Industries Limited's (TIL) established position in manufacturing acid and alkyl chlorides in India, a reputed client base and a healthy financial risk profile, backed by a long-term supply contract with a global chemical major. The rating also factors in the diversified end user industry applications e.g. polymer, pharma, specialty chemicals, flavours & fragrances etc. for company's products which partly mitigates the risk of cyclicality in the end-user industries. TIL has witnessed a healthy uptick in its revenue since FY2019 when it entered into a long-term supply contract with a global chemical player for 10 years.

The company's financial risk profile remains healthy, with no major capex undertaken over the last couple of years. The cash accruals have been in the range of Rs. 80-90 crore since FY2019, barring the Covid-impacted FY2021, resulting in low gearing of 0.4x at the end of FY2022 and 0.5x at the end of H1 FY2023. ICRA expects the company's supplies under the long-term contract to remain healthy and with the commercialisation of new molecules, the cash accruals are expected to rise to Rs. 100-110 crore per annum, going forward. With limited capex plans, going forward, ICRA expects the financial risk profile of the company to remain stable.

The rating, however, remains constrained by high product and customer concentration risk as a major portion of the company's revenue is derived from a single customer and a couple of products are supplied to the same customer. The risk is partly mitigated by the presence of a take or pay clause in the agreement. In addition, TIL's rating is constrained by the working capital intensive operations and the susceptibility of its profitability to the volatility in foreign exchange prices, mitigated to some extent by the natural hedge provided by raw material imports and any adverse changes in environmental regulations.

Key rating drivers and their description

Credit strengths

Established position with reputed clientele and wide product portfolio- TIL is one of the established players with strong experience in the chlorinated chemicals business. It mainly manufactures acid and alkyl chlorides which find application in a wide range of sectors such as polymers, pharma, agrochemicals, speciality chemicals and dyes. The polymer sector contributes to ~50% of the sales, pharma ~25% and the balance 25% comes from other sectors. The company's products find their end use in defence application, firefighting clothing, high-end cars, electric vehicles (EV) and aircraft manufacturing among others. The company supplies its products to some of the reputed players in its end user industry.

Wide geographical presence - The company has a wide geographical presence across multiple countries which include USA, Germany, China, South Korea, etc. Exports accounted for ~76% of the sales in FY2022 (~85% in 9MFY2023). Of the total sales, USA accounted for ~60% sales in FY2022 (66% in 9M FY2023), followed by Germany at ~6% in FY2022 (~10% in 9M FY2023).

Healthy revenue visibility, driven by long-term contract with a global chemical player; ramp up of new molecules to aid further growth - TIL's consolidated financial performance has witnessed a healthy revenue growth at a CAGR of ~11% in the last five years (till FY2022), while the operating margin has been healthy yet volatile in the range of 15-23% during this period. In FY2022, the company witnessed a significant uptick in revenues, backed by strong volume growth and increase in realisations, which helped the operating margins recover to around 18.3%. In 9M FY2023, there was a significant growth in revenue, driven by healthy volume growth although the margins have moderated due to raw material price pressures and elevated freight costs in H1 FY2023. Further, growth will be aided by the expansion of a particular facility at its current plant for a particular molecule wherein it expects the demand for the same to grow along with the commercialisation of five new products.

Healthy credit profile - The consolidated entity's capital structure and coverage indicators have also improved in the last few years with the repayment of term loans and increase in cash accruals. During FY2018 to FY2022, the gearing, marked by total debt/net worth (including lease liabilities and net worth adjusted for revaluation of equity holdings), improved to 0.4x from 1.5x, while the interest coverage improved to 10.6x from 4.4x. In the current fiscal, the interest cover remained at 8.0x in 9M FY2023 and with no major debt-funded capex plans in the medium term, the deleveraging trend is expected to continue. However, TIL is undertaking capex at its existing facility to enhance the capacity of one of the product wherein it is incurring a capex of ~Rs. 36-38 crore through lease financing for which the lease rental is payable over the next three years. Moreover, assets worth ~Rs. 58 crore were leased in H1 FY2023 to acquire storage tanks, for which the lease rental will be payable over the next five years.

Credit challenges

High customer and product concentration risk – TIL faces high product and customer concentration risks as a major portion of the revenue is derived from a single customer and a couple of products is supplied to the same customer. The same is partly mitigated by the presence of a take or pay clause in the agreement.

Working-capital intensive operations -. TIL's operations remain moderately working capital-intensive, characterised by receivable days of ~60 days and inventory days of 50-60 days. As the company exports a large share of its production, it has to offer extended credit period to the export customers. The company manages its cash flows by discounting the export bills.

Liquidity position: Adequate

TIL's liquidity remains adequate with expected net cash accruals of Rs. ~100-110 crore per annum on an ongoing basis, unencumbered cash balance of ~Rs. 32 crore as on September 30, 2022 with modest debt repayment and no major capex plans. The company's fund-based limit utilisation vis-à-vis the sanctioned limits and drawing power remained around ~40% and 29%, respectively, for the 12 months ended February 2023, thus resulting in the ability of the company to meet any short-term cash flow mismatches.

Rating sensitivities

Positive factors – The rating could be upgraded in case of a significant scale up in the revenues and profitability of the company on a sustained basis, along with maintaining a healthy financial risk profile.

Negative factors – The rating could witness a downward revision in case of any adverse impact on the revenue/profitability of the company on a sustained basis. Further, any debt-funded large capex and/or acquisition impacting the credit metrics can trigger a downward rating revision.

ESG Risks

Given the safety and environmental health-related concerns associated with chemicals, the industry is exposed to the risk of tightening regulatory norms for the production, handling, disposal, and transportation of chemical products. Additionally, some products can face restrictions/substitution over time because of their hazardous nature and the availability of more environment-friendly products. Further, in the event of accidents, the litigation risks and the liabilities for clean up could be high. TIL, however, has a demonstrated track record of running its operations safely, even as the nature of the risk (being low frequency -high impact) weighs on its rating.

Chemical sector entities like TIL are exposed to the risk of shift in consumer preferences over time to more environment-friendly products. Further, operating responsibly is an imperative and instances of non-compliance with environmental, health and safety norms could have an adverse impact on the local community which could manifest in the form of protests, constraining the ability to operate or expand capacity. TIL hasn't experienced/reported any incidents suggestive of safety lapses in its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be monitorable.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the Chemical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has used the consolidated financials of TIL (List of entities consolidated for the financial results is given in Annexure-II)

About the company

Vadodara (Gujarat)-based TIL was incorporated in 1965 and promoted by the Shroff family. The company's plant is located at Ekalbara, near Vadodara, which manufactures and exports chemicals, mainly acid and alkyl chlorides, which find application in various industries such as polymers, pharma and speciality chemicals. Promoters owned ~57% of the shareholding as on December 31, 2022. The company is listed on the Bombay Stock Exchange.

Key financial indicators (audited)

Consolidated	FY2021	FY2022	9MFY2023 (UA)
Operating income	345.5	609.1	624.1
PAT	22.5	64.5	61.0
OPBDIT/OI	15.6%	18.3%	17.2%
PAT/OI	6.5%	10.6%	9.8%
Total outside liabilities/Tangible net worth (times)*	0.8	0.8	-
Total debt/OPBDIT (times)	2.1	1.2	-
Interest coverage (times)	5.2	10.6	8.0

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Tangible net worth adjusted for revaluation of equity holdings*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2024)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Apr 24, 2023	-	-	-
1	**Issuer ratings**	Long term	-	-	**[ICRA]A+ (Stable)**			

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Issuer ratings	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Issuer ratings**	NA	NA	NA	-	[ICRA]A+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	TIL's Ownership	Consolidation Approach
Transpek Creative Chemistry Private Limited	100%	Full Consolidation

Source : Q3FY2023 company results

Corrigendum

Document dated April 24, 2023 has been corrected with revisions as detailed below:

Applicable rating methodology for entities in chemical Industry (under Analytical Approach) on page no.3 : Inserted

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Varun Gogia
+91 124 4545 319
varun.gogia1@icraindia.com

Chinmay Sheth
+91 79 4027 1550
chinmay.sheth@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

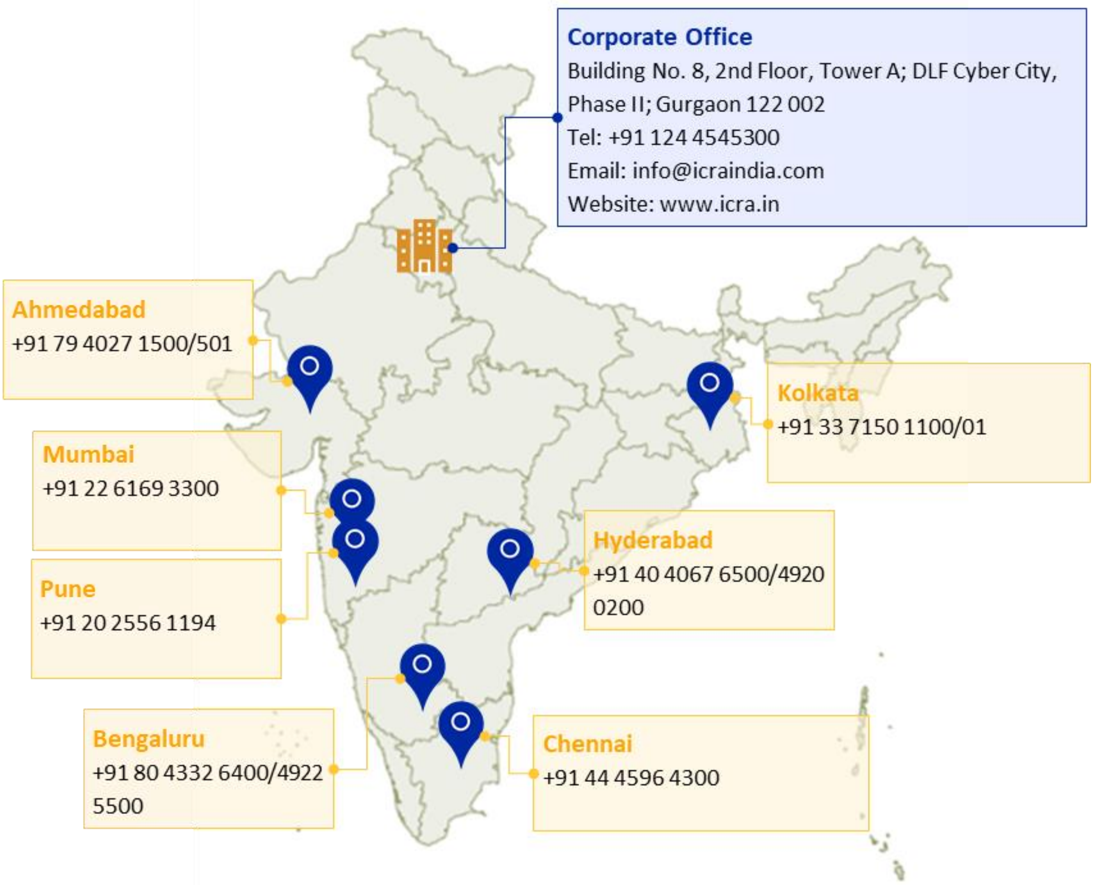
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.