June 06, 2023

Transpek Industry Limited: [ICRA]A+ (Stable)/[ICRA]A1 assigned for bank facilities; rating reaffirmed for issuer rating

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Cash Credit	-	85.00	[ICRA]A+ (Stable); assigned
Long-term fund-based – Term Loan	-	46.80	[ICRA]A+ (Stable); assigned
Short term - Fund based – Others	-	23.50	[ICRA]A1; assigned
Short term - Non-fund based – Others	-	79.46	[ICRA]A1; assigned
Issuer Rating	-	-	[ICRA]A+ (Stable); reaffirmed
Total	**-**	**234.76**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned ratings consider 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 ratings also factor in the diversified end-user industry applications e.g. polymer, pharma, flavours & fragrances along with the application of its products in manufacturing various specialty chemicals etc, which partly mitigates the risk of cyclicality in the end-user industries. TIL has witnessed a healthy uptick in 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. Given the healthy cash generation over the last couple of years, barring the Covid-impacted FY2021, the company's reliance on debt has been limited. The company's gearing was low at ~0.4x at the end of FY2023, driven by healthy profitability and low reliance on debt. ICRA expects the company's supplies under the long-term contract to remain healthy. With the commercialisation of new molecules, the cash accruals are expected to rise to Rs. 100-110 crore per annum. With limited capex plans, going forward, ICRA expects the financial risk profile of the company to remain stable.

The ratings, however, remain constrained by the 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, adverse changes in environmental regulations 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.

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 chemical 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. The company supplies its products to some reputed players in the 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% of the 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 global chemical player; ramp-up of new molecules to aid 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 FY2023, there was a significant rise in revenue by ~36% to ~Rs. 827 crore, driven by healthy volume growth with margins remaining at 17.8%. Further, growth will be aided by the capacity expansion of a molecule at its current facility for which the company expects the demand 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. As of FY2023-end, the gearing remained at 0.4x, while the interest cover was 7.7x. With no major debt-funded capex plans in the medium term, the deleveraging trend is expected to continue. However, TIL is undertaking a capex at its existing facility to enhance the capacity of one of the products 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, company has taken 783 storage tanks on lease in H1FY2023 for which lease rental is payable over course of 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 nature of operations - TIL's operations remain moderately working capital-intensive, characterised by receivable days of ~60 days and inventory days of 50-60 days which has been partly funded by the credit period offered by the company's suppliers. The company manages its cash flows by discounting the export bills.

Liquidity position: Adequate

TIL's liquidity remains adequate, given the expected net cash accruals of Rs. ~100-110 crore per annum on an ongoing basis and cash/bank balance of ~Rs. 25 crore as on March 31, 2023 with modest debt repayment and limited capex plans. The company's fund-based utilisation limit vis-à-vis the sanctioned limits remained around ~39% for the 12 months ended March 2023, enabling 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 cleanup 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 Shroff family. Company's plant is located at Ekalbara, near Vadodara which manufactures and exports chemicals, mainly acid and alkyl chlorides which finds it application in various industries like Polymers, Pharma, Speciality Chemicals among others. Promoters own ~57% of shareholding as on March 31, 2023. The company is listed on the Bombay Stock Exchange.

Key financial indicators (audited)

TIL Consolidated	FY2022	FY2023
Operating income	609.1	826.9
PAT	64.5	83.5
OPBDIT/OI	18.3%	17.8%
PAT/OI	10.6%	10.1%
Total outside liabilities/Tangible net worth (times)	0.8	0.8
Total debt/OPBDIT (times)	1.2	1.0
Interest coverage (times)	10.6	7.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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 as of May 15, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					June 06, 2023	Apr 24, 2023	-	-	-
1	Long-term Fund-based – Cash credit	Long term	85.00	-	[ICRA]A+ (Stable)	-	-	-	-
2	Long-term fund-based – Term loan	Long term	46.80	6.80	[ICRA]A+ (Stable)	-	-	-	-
3	Short term - Fund based – Others	Short term	23.50	-	[ICRA]A1	-	-	-	-
4	Short term - Non-fund based - Others	Short term	79.46	-	[ICRA]A1	-	-	-	-
5	Issuer rating	Long term	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Long-term fund-based – Term loan	Simple
Short term – Fund-based – Others	Simple
Short term - Non-fund based - Others	Very Simple
Issuer rating	Not Applicable

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	**Long-term fund-based – Cash credit**	NA	NA	NA	85.00	[ICRA]A+ (Stable)
NA	**Long-term fund-based – Term loan**	FY21	-	FY26	46.80	[ICRA]A+ (Stable)
NA	**Short-term – Fund-based – Others**	NA	NA	NA	23.50	[ICRA]A1
NA	**Short term - Non-fund based - Others**	NA	NA	NA	79.46	[ICRA]A1
NA	**Issuer rating**	NA	NA	NA	-	[ICRA]A+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	TIL's Ownership	Consolidation Approach
Transpek Creative Chemistry Private Limited	100.00%	Full Consolidation

Source: Q4 FY2023 Company Result

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

L. Shivakumar
+91 22 6114 3406
shivakumar@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.