August 05, 2024

Transpek Industry Limited: Ratings reaffirmed

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	85.00	[ICRA]A+ (Stable); reaffirmed
Long-term fund-based – Term loan	46.80	46.80	[ICRA]A+ (Stable); reaffirmed
Short term - Fund based – Others	23.50	23.50	[ICRA]A1; reaffirmed
Short term - Non-fund based – Others	79.46	79.46	[ICRA]A1; reaffirmed
Issuer rating	-	-	[ICRA]A+ (Stable); reaffirmed
Total	**234.76**	**234.76**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation 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 ratings factor in the diversified end-user industry applications across the polymer, pharma, flavour & fragrance segments along with the use of the products in manufacturing various specialty chemicals, which partly mitigates the risk of cyclicality in the end-user industries.

TIL has been witnessing a healthy uptick in revenue since FY2019 after it entered into a long-term supply contract with a global chemical player for 10 years. However, ICRA notes the moderation in the company's business performance in FY2024 due to macro-economic headwinds, wherein the revenues declined by ~30% YoY to Rs. 586.7 crore and the OPM was at ~15.2%. The moderation in the performance was caused by lower offtake by the customers due to headwinds in end-user demand and softening of realisations. As a result, the overall gross profit moderated and the lower absorption of fixed costs pulled down the operating profit sharply to Rs. 89.4 crore in FY2024 from ~Rs. 164 in FY2023. ICRA expects a modest uptick in the volume offtake under the long-term contract and additional volumes from the new molecules introduced over the past couple of years as these are expected to complete their product approval cycles in FY2025. Hence, the performance is expected to gradually improve with the increase in volumes, which should support an overall improvement in the profitability and credit profile. Nevertheless, the business performance will remain a key monitorable.

The company's financial risk profile remains healthy, with no major capex undertaken over the last couple of years. Its reliance on debt has been limited, given the healthy cash generation over the last couple of years, barring the Covid-impacted FY2021. The gearing was low at ~0.3x at the end of FY2024, driven by low reliance on debt. While the credit profile was impacted in FY2024 with the TD/OPBDITA moderating to 1.4x in FY2024 from 0.9x in FY2023 and the interest coverage ratio declining to 6.2x in FY2024 from 8.5x in FY2023, it remains comfortable for the rating category.

The ratings 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 ratings are also constrained by the working capital-intensive operations, adverse changes in environmental regulations and the susceptibility of its profitability to volatility in foreign exchange prices, mitigated to some extent by the natural hedge from raw material imports.

ICRA expects TIL's credit profile to remain stable amid a volume-led growth in cash generation, and modest capex outlay and lease liability payouts.

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 many countries, which include USA, Germany, China, South Korea etc. Exports accounted for ~88% of the sales in FY2024 (~87% in FY2023). Of the total sales, USA accounted for ~75% of the sales in FY2024 (78% in FY2023), followed by Germany at ~12% in FY2024 (~12% in FY2023).

Healthy revenue visibility, driven by long-term contract with global chemical player; ramp-up of new molecules to aid growth - TIL's supplies acid chlorides to a major international chemical player under a long-term contract that would end in CY2028, with take or pay liabilities for the offtaker, which provides revenue visibility for the company. TIL is also a leading acid chloride supplier globally and has strong footprint in the export markets. As a result, it has been witnessing healthy revenue growth since FY2018. The revenues, however, had moderated in FY2024 in line with the headwinds faced by the global chemical industry. Going forward, the revenue visibility remains healthy for TIL on the back of the offtake under the long-term contract, the company's established position in the export markets and the expected monetisation of the recently launched molecules.

Strong credit profile - The consolidated entity's capital structure and coverage indicators have remained healthy in the last few years with the repayment of term loans and increase in cash accruals. In FY2024, the gearing, marked by total debt/net worth (including lease liabilities and net worth adjusted for revaluation of equity holdings), improved to 0.3x from 0.4x in FY2023. The interest coverage ratio and DSCR stood at 6.2x and 2.2x, respectively, in FY2024 compared to 8.5x and 3.0x in FY2023. The total debt/OPBITDA was at 1.4 times as on March 31, 2024, compared to 0.9 time as on March 31, 2023. Despite the moderation in the credit metrics, they remain comfortable. With no major debt-funded capex plans in the medium term, the deleveraging trend is expected to continue.

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 risk is partly mitigated by the presence of a take-or-pay clause in the offtake 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, partly funded by the credit period offered by the company's suppliers. The company manages its cash flows by discounting the export bills.

ESG risks

The industry in which TIL operates is exposed to the risk of tightening regulatory norms for the production, handling, disposal, and transportation of products because of the safety and environment-related concerns associated with chemicals. 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 incident suggestive of safety lapses at its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be monitorable.

Liquidity position: Adequate

TIL's liquidity remains adequate, given the expected net cash accruals of Rs. 75-90 crore per annum on an ongoing basis, free cash/bank balance of ~Rs. 42 crore as on March 31, 2024 with modest repayments for fixed deposits, lease liability payment and moderate capex plans. The company's fund-based limit utilisation vis-à-vis the sanctioned limits remained low for the 12 months ended March 2024, which would enable the company to meet any short-term cash flow mismatches.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates a significant scale-up in its revenues and profitability on a sustained basis while maintaining a healthy financial risk profile.

Negative factors – The ratings could be revised downwards if any adverse impact on the company's revenue/profitability moderates the leverage and coverage metrics on a sustained basis. Further, any debt-funded large capex and/or acquisition impacting the credit metrics can trigger a downward rating revision.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology-Chemicals
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-based TIL was incorporated in 1965 and promoted by the Shroff family. The company's plant is at Ekalbara, near Vadodara. It manufactures and exports chemicals, mainly acid and alkyl chlorides, which find application in various industries, such as polymers, pharma and speciality chemicals. The promoters owned ~57% of the shareholding as on March 31, 2024. The company is listed on the Bombay Stock Exchange.

Key financial indicators (audited)

TIL Consolidated	FY2023	FY2024
Operating income	833.9	586.7
PAT	83.4	38.4
OPBDIT/OI	19.7%	15.2%
PAT/OI	10.0%	6.6%
Total outside liabilities/Tangible net worth (times)	0.8	0.7
Total debt/OPBDIT (times)	0.9	1.4
Interest coverage (times)	8.5	6.2

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	05-AUG-2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Issuer	Long Term	-	[ICRA]A+ (Stable)	-	-	24-APR-2023	[ICRA]A+ (Stable)	-	-	-	-
				-	-	06-JUN-2023	[ICRA]A+ (Stable)				
Long term-cash credit-fund based	Long Term	85.00	[ICRA]A+ (Stable)	-	-	06-JUN-2023	[ICRA]A+ (Stable)	-	-	-	-
Long term-term loan-fund based	Long Term	46.80	[ICRA]A+ (Stable)	-	-	06-JUN-2023	[ICRA]A+ (Stable)	-	-	-	-
Short term-others-fund based	Short Term	23.50	[ICRA]A1	-	-	06-JUN-2023	[ICRA]A1	-	-	-	-
Short term-others-non fund based	Short Term	79.46	[ICRA]A1	-	-	06-JUN-2023	[ICRA]A1	-	-	-	-

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: Company

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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.

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