Press Release

T.R. Chemicals Ltd

October 16, 2019

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1.	Long Term Facility – Fund Based - Cash Credit	9.00	IVR B+ / Stable Outlook (IVR Single B Plus with Stable Outlook)
2.	Long Term Facility – Fund Based – Term Loan	7.08	IVR B+ / Stable Outlook (IVR Single B Plus with Stable Outlook)
3.	Short Term Facility – Non Fund Based - Bank Guarantee / Letter of Credit*	1.00	IVR A4 (IVR A Four)
	Total	**17.08**	

*The facilities are interchangeable

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid rating derives comfort from experienced board of directors, closely connected logistics network, moderate scale of operations, low cost alternative raw material. However, the rating is partially offset by stretched liquidity, weak financial risk profile, working capital intensive nature of operations, cyclicality in steel industry and input risk and stringent exposure to regulatory norms.

Key Rating Sensitivities

Upward Factors: Sustained improvement in operating revenues, maintaining profitability and timely servicing of debt.

Downward Factors: Deteriorating debt protection metrics, large working capital requirements and weak liquidity.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced Board of Directors

TRCL is a public limited company incorporated on 14th May, 1993. The company is promoted by Mr. Vishesh Kapoor, Mr. Sunil Kumar Agarwal and Mr. Prakash Kumar Tripathy. They possess a considerable amount of experience in the field of steel manufacturing and look after the day to day operations of the company.

Closely connected logistics network

The company has a good supplier network. Its top five suppliers constitute around 64% of its total raw material purchases which indicates a moderately diversified supply network. Further, majority of its suppliers are located in its close vicinity within the bounds of Odisha; which helps the company to save on logistics and mitigate any supply chain disruptions.

Moderate Scale of Operations

The company's top line exhibited a CAGR of 66% (over 2 years) since FY17, having increased from Rs.39.75 crore (FY17) to Rs.81.77 crore in FY19 – the company attributes the revenue increase to higher demand from the construction industry.

Low cost alternative raw material

The primary material used by Electric Arc Furnaces (EAFs) was scrap iron, the availability of which was low, as a cheaper alternative the EAFs started using sponge iron. Apart from being a cost effective alternative, sponge iron (having more than 91% iron content) has considerably lesser impurities than scrap iron, leading to higher efficiency and superior quality of steel.

Key Rating Weaknesses

Stretched liquidity

The company's liquidity profile is stretched, marked by low gross cash accruals in FY19, which barely covers their yearly debt payments. The company has working capital limits of Rs.9.00 crore which they have been using at a monthly average of 96.89%.

Below-average financial risk profile

The gearing of the company stood at 2.67x as on March 31, 2019. The current and quick ratio were 1.19x & 0.34x in FY19, respectively indicating stretched liquidity in the short-run. The total debt of the company stands at Rs.16.73 crore as on March 31, 2019. The company is extensively reliant on external sources of funding through banks as well as unsecured sources – The company has taken two funded interest term loans (FITL) from UCO bank amounting to Rs.3.49 crore which is being utilised to service their existing loans.

Working capital intensive nature of operations

The average collection period was favourable at approximately 22 days, but the average inventory days was 161 days in FY19. This implies working capital intensive operations where much of the company cash is locked up in inventory.

Cyclicality in the Steel Industry and Input risk

Steel is a very cyclical industry, it is strongly correlated to the economic cycles, since its key users are automobiles, construction and consumer durables. The overall slowdown in the economy and sector specific slowdowns in the automobile and construction industry has hampered the demand for TRCL's products. The domestic iron ore availability is currently affected due to the local mining bans and cancellation of all 88 mining leases in the Goa. Importing iron ore is often unviable due to land-locked manufacturing units facing domestic infrastructure constraints and high logistics costs. This leaves the industry mostly dependent on domestic iron ore producers. The ability of sponge iron producers to pass on any cost increase depends on the steel demand and price scenario and the relative price of steel scrap. The availability of coal for this industry also sees swings, especially when the demand from power producers for coal increases during summer. Logistics issues, such as rail rake availability for timely evacuation of coal, is also a constraint.

Exposure to stringent regulatory norms

TRCL operates in an industry that poses high risks to environment and health, the sponge iron industry are red category industries, which means they have a high pollution potential and can cause serious health problems. Most of the Indian states have made it mandatory for sponge iron manufacturing companies to use electrostatic precipitators (which help in keeping emissions in check). The industry is regulated by stringent norms by regulatory bodies. The company continues to comply with such norms (they have hired a private pollution control contractor to keep their emissions under control); however, any changes in the policies may adversely constrain the business.

Analytical Approach & Applicable Criteria

Standalone Approach

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

Liquidity is stretched, marked by low accruals as against repayment obligations, highly utilized bank limits and a low cash balance. The Gross Cash Accruals are improving with better capacity utilisation and sales.

About the Company

T.R. Chemicals Limited (TRCL) was established in the year 1993; they specialise in the manufacture of sponge iron (earlier the company also used to manufacture synthetic industrial resins meant for industrial and household usage). The company is promoted by Mr. Vishesh Kapoor, Mr. Sunil Kumar Agarwal and Mr. Prakash Kumar Tripathy, they possess over 25 years of experience in the steel industry. They have their base of operations in Odisha. Their manufacturing unit was established for the primary purpose of manufacturing chemicals used in refractories and bricks, later on they moved on to the manufacture of sponge iron solely. The company is presently having 3 kilns with a capacity of 50 TPD (45000 MT per annum) for the production of sponge iron. They cater to foundries and ingot manufacturers, wherein sponge iron is used as a cheaper and reliable alternative to scrap. Odisha accounts for the largest share of sponge iron manufacturing in India followed by Chhattisgarh, Jharkhand and West Bengal having large iron ore reserves. TRCL has a majority of its suppliers within the state of Odisha, including Orissa Mining Corporation Ltd, South Easter Coalfields Ltd and Essel Mining and Industries among others.

Financials **(Rs. crore)**

For the year ended/ As On	31-03-2018	31-03-2019
	(Audited)	(Audited)
Total Operating Income	60.92	81.77
EBITDA	6.76	8.41
PAT	0.36	1.58
Total Debt	17.33	16.73
Tangible Net-worth	10.61	6.27
Ratios		
EBITDA Margin (%)	11.10	10.28
PAT Margin (%)	0.60	1.92
Overall Gearing Ratio (x)	1.63	2.67

Note: Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: CRISIL has moved the rating of T.R. Chemicals Limited into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated April 08, 2019.

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Fund Based Limits – CC	Long Term	9.00	IVR B+/ Stable Outlook	--	--	--
2.	Fund Based – Long term debt – Term Loan	Long Term	7.08	IVR B+/ Stable Outlook	--	--	--
3.	Non Fund Based – Bank Guarantee/Letter of Credit*	Short Term	1.00	IVR A4	--	--	--

**The facilities are interchangeable*

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Cash Credit	--	--	--	9.00	IVR B+/Stable Outlook
Long Term Debt – Term Loan	--	--	September, 2023	7.08	IVR B+/Stable Outlook
Short Term Non Fund Based – Bank Guarantee / Letter of Credit*	--	--	--	1.00	IVR A4

**The facilities are interchangeable*