

Rating Rationale

September 29, 2020 | Mumbai

Gujarat Fluorochemicals Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.2000 Crore
Long Term Rating	CRISIL AA/Negative (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

Rs.400 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)
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1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL AA/Negative/CRISIL A1+' ratings on the bank facilities and commercial paper programme of Gujarat Fluorochemicals Limited (GFCL).

CRISIL had, on May 27, 2020, revised its rating outlook on the long-term bank facilities of GFCL to 'Negative' from 'Stable', while reaffirming the rating at 'CRISIL AA'. The outlook revision reflected a belief that GFCL's credit profile may deteriorate in the near to medium term if cash accrual is lower than expected or debt reduction is significantly delayed.

In fiscal 2020, earnings before interest, taxes, depreciation and amortisation (EBITDA) dropped to Rs 521 crore (margin of 20%), from Rs 852 crore (31.2%) for the previous fiscal. Prices of chloroform and caustic soda were subdued during fiscal 2020, while slowdown in the automotive sector also affected demand for polytetrafluoroethylene (PTFE). Debt increased to above Rs 1,700 crore as on March 31, 2020 (from Rs 917 crore a year ago) due to lower cash accrual, large capital expenditure (capex), and capital advances for proposed capex.

In the first quarter of fiscal 2021, operating performance was marginally impacted by the Covid-19 pandemic and the ensuing lockdown. Operating income dropped 25% year-on-year, while EBITDA margin improved to 28% as against 26% in Q1 last year driven by increased sales in value-added products. GFCL expects operating performance to improve in fiscal 2021, driven by significant ramp-up of the fluoro-specialty chemical business and benign raw material prices.

The company expects net debt to reduce in fiscal 2021, aided by a cash refund from the income tax department, release of funds from working capital, and steady cash accrual over the next 3-6 months. Improvement in operating performance and progress on debt reduction plan will be closely monitored.

Liquidity remains healthy, supported by undrawn bank lines of Rs 476 crore as well as around Rs 100 crore cash and bank balances, and liquid investments.

The ratings continue to reflect GFCL's robust market position in the chemicals business, healthy operating efficiencies driven by integrated operations, and a healthy financial risk profile. These strengths are partially offset by need for financial support to group companies, and inherent volatility in the chemicals business.

Analytical Approach

For arriving at its ratings, CRISIL has combined the business and financial risk profiles of GFCL and all its subsidiaries, as all the entities (together referred to herein as GFCL) operate in similar businesses under a common management.

Please refer Annexure - List of entities consolidated, for details of the entities considered and their analytical treatment for consolidation.

Key Rating Drivers & Detailed Description

Strengths

* Robust market position

GFCL is the largest PTFE manufacturer in India, and among the top 4 players globally. It is also a leading manufacturer of hydrochlorofluorocarbon (HCFC), which is used in refrigeration and air conditioning, among other industries. Product portfolio is well-diversified, comprising caustic soda (15% share in fiscal 2020), chloromethanes (13%) and value-added products (16%). The company is making efforts to build a healthy pipeline of fluoro-specialty chemicals and fluoro-polymers that are likely to be growth drivers. Robust market position, along with a diversified product portfolio, should continue to support the business risk profile.

* Integrated operations driving operating efficiencies

The chemicals business is forward-integrated into manufacturing PTFE and backward-integrated into manufacturing HCFC, anhydrous hydrogen fluoride, chloroform, and chlorine. This reduces dependence on external sources for raw materials, and ensures a healthy operating margin and capacity utilisation. Profitability in the chemicals business has also been supported by increased contribution from value-added products and specialty fluoropolymers over the last few years.

Revenue declined by 4% to Rs 2,606 crore in fiscal 2020, from Rs 2,728 crore in the previous fiscal, as subdued chloroform and caustic soda prices, along with slowdown in the automotive sector affected PTFE demand. Operating margin also dropped to 20% from 31.2% over the same period. The margin however improved to 28% in the first quarter of fiscal 2021, driven by higher share of new value-added products, despite some impact of the Covid-19 pandemic. The company's ability to report healthy growth in revenue and operating margin in fiscal 2021 remains a key rating sensitivity factor.

* Healthy financial risk profile

Financial risk profile was healthy, backed by a robust tangible network and comfortable gearing. However, it did weaken in fiscal 2020, owing to increase in debt, with higher capital advances towards planned capex. Debt protection metrics were still comfortable with interest coverage ratio of 6.25 times (17.13 times for the previous fiscal).

GFCL expects to significantly reduce its net debt over the next 3-6 months, on the back of a cash refund expected from the Income Tax department and healthy cash accrual. Sustenance of improvement in cash accrual and gradual reduction in debt, aiding debt protection metrics, are key monitorables.

Weaknesses

* Support to group companies

As the chemical business is marked by high cash generation, the company has supported group entities over the years, via loans, corporate guarantees, and lien marking its own liquidity for loans undertaken by the group entities. With expected improvement in performance of group entities, the requirement of such support should significantly reduce during fiscal 2021, and it remains a key monitorable.

* Inherent volatility in the chemicals business

The chemicals business is largely export driven and thus, remains vulnerable to volatility in international markets. Addition of large capacities or adverse currency fluctuations could also constrain performance. While the large integrated scale of operations drives operating efficiency, the business remains exposed to fluctuation in foreign exchange (forex) rates and supply volatility in international markets. However, a prudent forex management policy which helps mitigates the risk of losses from the fluctuations.

Liquidity Strong

Liquidity remains strong, with healthy cash accrual of about Rs 393 crore in fiscal 2020. Liquidity is further supported by current unutilised bank lines and unencumbered cash equivalents/liquid investments of about Rs 476 crore and around Rs 100 crore respectively. The available liquidity and annual cash accrual estimated at Rs 600-750 crore during fiscals 2021 and 2022 should be sufficient to meet annual repayment obligation and moderate capex plans.

Outlook: Negative

CRISIL believes GFCL's business and the financial risk profiles may weaken in the near to medium term, owing to lower-than-expected EBITDA, and substantial debt.

Rating Sensitivity Factors

Upward Factors

- * Strong revenue growth from new products, with sustained improvement in operating margin, leading to higher cash accrual
- * Lower-than- envisaged debt and improved EBITDA margin, leading to gross debt to EBITDA ratio sustaining below 1.5 times

Downward Factors

- * Slower volume ramp-up, leading to lower-than-expected operating revenue, profitability and cash accrual
- * Higher-than- envisaged debt with weak operating margin, leading to sustenance of gross debt to EBITDA ratio above 2 times in the next two quarters
- * Significant, debt-funded capex plan or acquisitions, weakening the financial risk profile.

About the Company

GFCL, earlier known as Inox Fluorochemicals Ltd, houses the chemicals business of the Inox group that has been demerged from GFL Ltd, into a separate legal entity with effect from April 1, 2019. The diverse product portfolio includes caustic soda, chloromethanes, PTFE, HCFC and value-added products. The company is one of the largest chemicals players in India, with a combined installed capacity of 65,000 tonne per annum (tpa) of HCFC, 16,200 tpa of PTFE, 134,750 tpa of caustic soda, and 108,500 tpa of chloromethane.

For the three months ended June 30, 2020, operating income and reported profit after tax (PAT) was Rs 557 crore and Rs 70 crore, respectively, against Rs 740 crore and Rs 112 crore, respectively, for the corresponding period of the previous fiscal.

Key Financial Indicators

As on/for the period ended March 31	Unit	2020	2019
Revenue	Rs.Crore	2606	2728
PAT	Rs.Crore	189	1277*
PAT Margin	%	7.3	46.8
Adjusted debt/adjusted networkth	Times	0.47	0.26
Interest coverage	Times	6.25	17.13

*includes impact of Income tax credit from earlier year

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the

Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
NA	Foreign Currency Term Loan	NA	NA	Mar-2023	81.81	NA	CRISIL AA/Negative
NA	Cash Credit*	NA	NA	NA	145.00	NA	CRISIL AA/Negative
NA	Working Capital Facility	NA	NA	NA	1203	NA	CRISIL A1+
NA	Proposed Working Capital Facility	NA	NA	NA	4.57	NA	CRISIL A1+
NA	Rupee Term Loan	NA	NA	Mar-2027	565.62	NA	CRISIL AA/Negative
NA	Commercial Paper	NA	NA	7-365 days	400.00	Simple	CRISIL A1+

*Interchangeable with overdraft and other working capital facility

Annexure - List of Entities Consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Gujarat Fluorochemicals Americas LLC, U.S.A	Fully consolidated	Strong business and financial linkages
Gujarat Fluorochemicals GmbH, Germany	Fully consolidated	Strong business and financial linkages
Gujarat Fluorochemicals Singapore Pte. Limited	Fully consolidated	Strong business and financial linkages
GFL GM Fluorspar SA	Fully consolidated	Strong business and financial linkages

Annexure - Rating History for last 3 Years

Instrument	Current			2020 (History)		2019		2018		2017		Start of 2017
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	400.00	CRISIL A1+	27-05-20	CRISIL A1+	23-08-19	CRISIL A1+		--		--	--
Fund-based Bank Facilities	LT/ST	2000.00	CRISIL AA/Negative/ CRISIL A1+	27-05-20	CRISIL AA/Negative/ CRISIL A1+	23-08-19	CRISIL AA/Stable/ CRISIL A1+		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit*	145	CRISIL AA/Negative	Cash Credit*	145	CRISIL AA/Negative
Foreign Currency Term Loan	81.81	CRISIL AA/Negative	Foreign Currency Term Loan	81.81	CRISIL AA/Negative
Proposed Working Capital Facility	4.57	CRISIL A1+	Proposed Working Capital Facility	4.57	CRISIL A1+
Rupee Term Loan	565.62	CRISIL AA/Negative	Rupee Term Loan	565.62	CRISIL AA/Negative
Working Capital Facility	1203	CRISIL A1+	Working Capital Facility	1203	CRISIL A1+
Total	2000	--	Total	2000	--

^Interchangeable with overdraft and other working capital facility

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Chemical Industry](#)

[CRISILs Criteria for Consolidation](#)

[CRISILs Criteria for rating short term debt](#)

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