



# Gujarat Alkalies and Chemicals Limited

(Promoted by Govt. of Gujarat)

Regd. Office & Works : P.O. Petrochemicals - 391 346, Dist. Vadodra(Gujarat) INDIA  
Phone : +91-265-2232681, 3051200, 6540463 Fax : +91-265-2232130  
Website : www.gacl.com CIN NO : L24110GJ1973PLC002247

Ref. : SEC/SE/2017/

4<sup>th</sup> October, 2017

The General Manager Corporate Relation Department BSE Ltd. 1 <sup>st</sup> Floor, New Trading Ring Phiroze Jeejeebhoy Towers Dalal Street MUMBAI : 400 001	The General Manager Listing Department National Stock Exchange of India Ltd. "Exchange Plaza", C-1, Block 'G' Bandra-Kurla Complex Bandra (East) MUMBAI : 400 051
Ref. : Company Code No. : 530001	Ref. : Company Code No. : GUJALKALI

Dear Sir,

- Sub. : Credit Rating by CARE for -
- (i) Long Term Bank Facilities of Rs.349.57 Crore
  - (ii) Short Term Bank Facilities of Rs.45 Crore
  - (iii) Commercial Paper Issue of Rs.100 Crore

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we enclose herewith copies of letters issued by Credit Analysis & Research Limited (CARE) both dated 29<sup>th</sup> September, 2017 (received on 3<sup>rd</sup> October, 2017 at 15:49 Hours), reviewing / reaffirming the bank facilities and commercial paper issue as under:

- (i) "CARE AA+" [Double A Plus] for Long Term Bank Facilities of Rs.349.57 Crore (Reduced from Rs.425.94 Crore);
- (ii) "CARE A1+" [A One Plus] for Short Term Bank Facilities of Rs.45 Crore; and
- (iii) "CARE A1+" [A One Plus] for Commercial Paper Issue for an amount aggregating to Rs.100 Crore for a maturity not exceeding one year. (The Company has not issued Commercial Paper(s) during the FY 2016-17 and till date of current FY 2017-18).

Thanking you,

Yours faithfully,  
For GUJARAT ALKALIES AND CHEMICALS LIMITED

( S S BHATT )  
COMPANY SECRETARY & GM (LEGAL & CC)

Encl: as said



Dahej Complex : P.O. Dahej - 392130, Tal. Vagra, Dist. Bharuch (Gujarat) INDIA  
Phone : +91-2641-256315/ 5/7. Fax : +91-2641-256220.

No. CARE/ARO/RI/2017-18/1700

Dr. H. B. Patel  
Executive Director (Finance) & CFO,  
Gujarat Alkalies and Chemicals Ltd,  
P.O. Petrochemicals,  
Vadodara,  
Gujarat – 391 346

September 29, 2017

**Confidential**

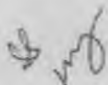
Dear Sir,

**Credit Rating for Bank Facilities**

On the basis of recent developments including operational and financial performance of your company for FY17 (audited) and Q1FY18 (provisional), our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	349.57 (reduced from 425.94)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	45.00	CARE A1+ (A One Plus)	Reaffirmed
<b>Total Facilities</b>	<b>394.57</b> <b>(Rupees Three Hundred Ninety Four Crore and Fifty Seven Lakh Only)</b>		

- Refer Annexure 1 for details of rated facilities.
- The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as Annexure 2. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by October 5, 2017, we will proceed on the basis that you have no any comments to offer.



<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

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**CARE Ratings Limited**  
(Formerly known as Credit Analysis & Research Limited)

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CIN-L67190MH1999PLC071651

4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Users of this rating may kindly refer our website [www.careratings.com](http://www.careratings.com) for latest update on the outstanding rating.
8. CARE ratings are not recommendations to sanction, renew, disburse or recall any bank facilities.

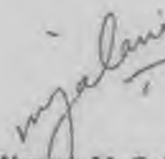
If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,



[Suyasha Shah]  
Deputy Manager  
suyasha.shah@careratings.com




[Naresh M. Golani]  
Associate Director  
naresh.golani@careratings.com

Encl.: As above

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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## Annexure 1

### Details of Rated Facilities

#### 1. Long Term Facilities

##### 1. A. Term Loans

(Rs. Crore)

Sr. No.	Name of Bank	Rated Amount	Debt Repayment Terms
1	HSBC Bank (Sanctioned ECB of USD 30 Mn)	*193.74	10 half yearly installments of USD 3.00 Mn from January 2018
3	HDFC Bank (Sanctioned ECB of USD 20 Mn)	*25.83	10 half yearly installments of USD 2.00 Mn from August 2013
	Total	219.57	

\* O/s as on June 30, 2017, rupee equivalent of outstanding loan value converted at Rs.64.58 per USD

##### 1. B. Fund Based Limits

(Rs. Crore)

Sr. No.	Name of Bank	Amount
1	State Bank of India	55.00
2	Indian Bank	25.00
3	Central Bank of India	15.00
4	UCO Bank	10.00
5	Axis Bank	10.00
6	HDFC Bank	10.00
7	IDBI Bank	5.00
	Total	130.00

Total Long Term Facilities as at ..... (1.A.+1.B.)

Rs.349.57 Crore

#### 2. Short Term Facilities

##### 2. A. Non-Fund Based Limits

(Rs. Crore)

Sr. No.	Name of Bank	Amount
1	State Bank of India	25.50
2	Axis Bank	10.00
3	HDFC Bank	7.00
4	Central Bank of India	2.50
	Total	45.00

Total Short Term Facilities as at ..... (2.A.)

Rs.45.00 Crore

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**Annexure 2**  
**Press Release**

**Gujarat Alkalies and Chemicals Ltd**

**Ratings**

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long term Bank Facilities	349.57 (reduced from 425.94)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	45.00	CARE A1+ (A One Plus)	Reaffirmed
<b>Total</b>	<b>394.57</b> <b>(Rupees Three Hundred Ninety Four Crore and Fifty Seven Lakh Only)</b>		
Commercial Paper Issue	100.00 (Rupees One Hundred Crore Only)	CARE A1+ (A One Plus)	Reaffirmed

*Details of facilities/ instruments in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

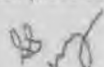
*The ratings for various bank facilities and instruments of Gujarat Alkalies and Chemicals Ltd (GACL) continue to draw strength from its strong parentage, well-established position as the market leader in domestic chlor-alkali industry along with its integrated operations and wide product portfolio which finds application across diversified end-use industries.*

*The ratings are also underpinned by its state-of-the-art technology, captive power generation to meet part of its energy requirements along with its comfortable leverage and strong debt coverage indicators. The ratings also factor improvement in its profitability during FY17 (refers to period from April 1 to March 31) due to lower power cost on the back of reduction in gas prices driven by global market forces.*

*The ratings also take cognizance of the fact that GACL has investment requirements for its joint venture (JV) with National Aluminium Company Ltd (NALCO) for manufacturing caustic soda. Apart from project implementation risk, GACL would also have to manage the saleability risk associated with the new capacity including the disposal of chlorine after factoring the off-take arrangement with NALCO.*

*The long term rating, however, continues to be constrained by susceptibility of its profitability to adverse movement in market price of gas and power cost which constitute a significant part of its cost structure, risk related to adverse movement in foreign exchange rates, large-sized capex/investment*

<sup>1</sup> Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.



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plans and its presence in a cyclical industry which also faces competition from imports; albeit the same is currently being mitigated due to presence of anti-dumping duty.

GACL's ability to increase its scale of operations and maintain stability of its high profitability by securing significant portion of its power requirement through captive low cost sources (e.g. renewable energy) so as to shield against market-driven fluctuations of gas/energy prices and through greater share of value-added products in its sales-mix so as to improve captive consumption of chlorine; thereby resulting in greater resilience of its profitability even in the scenario of any future withdrawal of anti-dumping duty by Government of India on import of caustic soda would be the key rating sensitivities. Further, significant adverse impact of more than envisaged large-size debt funded capex/investments on its capital structure would also be a key rating monitorable.

#### Detailed description of the key rating drivers

##### Key Rating Strengths

**Market leader in domestic caustic soda industry:** GACL is the largest independent producer of caustic soda in the country with an installed capacity of 412,500 metric tonne per annum (MTPA) as on March 31, 2017 at its plants in Vadodara and Dahej in Gujarat. GACL has gradually built its leadership position through continuous expansion of production capacities to cater to the growing demand for its products over the last three decades.

Over the years it has also introduced new chlorine derivatives (downstream products) for captive utilization of chlorine, an essential by-product generated during manufacturing of caustic soda. This has equipped the company to leverage upon its large production capacity and protect its profitability from the effects of volatility in chlorine prices to some extent.

**Integrated operations and diversified customer base:** The operations of GACL are well-integrated with by-product of one process being used as raw material for another process, enabling the company to optimally utilize its large production capacity. It also protects GACL's profitability to an extent from the effects of inherent cyclicity in the demand for its major products, as adverse demand scenario for one set of products is countered by favorable movement in other products. GACL's products find application across diverse range of industries.

**State-of-the-art technology and captive power generation to meet part of its energy requirements:** The cost structure of GACL has remained competitive on account of its membrane cell technology used for production of caustic soda, captive power plant for meeting some of its energy requirements and investment in wind-mills to offset higher cost of power purchased from the market. The membrane cell technology used for electrolysis of salt consumes one-third less power compared to the traditional mercury cell technology and is also less polluting.

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**Healthy financial risk profile:** GACL's financial risk profile continued to remain healthy. Its PBILDT margin improved y-o-y by 555 bps to 24.29% during FY17 primarily on account of reduction in power cost driven by lower market price of natural gas. Further, it had a comfortable overall gearing of 0.13 times and Total Debt/GCA of 0.76 times as on March 31, 2017.

**Stable outlook for caustic soda industry:** The outlook for the domestic chlor-alkali industry is likely to remain stable in the near-term, mainly on account of expectation of steady demand from its key end-use industries like textile, pulp and paper, aluminum, pharmaceuticals and agrochemicals. As per Centre for Monitoring Indian Economy (CMIE), the demand for caustic soda is expected to increase by around 3% in FY18 driven by likely increase in output of aluminum and paper industry. Profitability in the industry has improved in 5MFY18 and is expected to remain stable in with better sales realization on the back of healthy demand from the consuming industries.

#### Key Rating Weaknesses

**Susceptibility of its profitability to adverse movement in market price of gas and power cost along with competition from imports:** GACL's profitability is susceptible to adverse movement in market price of gas and power cost since electrolysis is an energy intensive process and power cost constitutes a significant part of its cost structure. The power cost comprised around 32% of GACL's total operating income in FY17 (37% in FY16). The Indian chlor-alkali industry faces competition from cheap imports of lower power cost countries; however, the same is being mitigated by presence of anti-dumping duty on imports of caustic soda.

**Risk of adverse movement in foreign exchange rates on un-hedged long-term borrowings; however, export volumes provide natural hedge to a certain extent:** GACL is exposed to risk of adverse movement in foreign exchange rates on account of its long-term borrowings denominated in USD, raised for part-funding of its capex plans. Further, as a matter of policy, GACL does not hedge its foreign currency exposure. During FY17, GACL imported raw materials and capital goods worth Rs.305.55 crore and had repayment liabilities of Rs.89 crore against which it made exports of Rs.241.39 crore, thus partially hedging its foreign currency exposure naturally to some extent. Also, the interest cost on the forex borrowings is lower than that on comparable domestic rupee loans.

**Large-size own capex plan and investment requirements in its JV along with associated solvability risk:** GACL has planned own capex of around 1,721 crore over the four year period ending FY21 which is expected to be funded by debt of Rs.828 crore and the balance through internal accruals. Further, in June 2015, GACL had announced its plan to enter into 60:40 joint venture with NALCO; GACL-NALCO Alkalies & Chemicals Pvt Ltd (GNAL) for setting up a chlor-alkali plant for producing 292,000 MTPA of caustic soda at Dahej, in the vicinity of GACL's existing plant. The joint venture would also establish a coal-based power plant (130 MW) to meet the power requirements on a captive basis. The cost of the

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JV project is expected to be around Rs.2,000 crore, to be funded through debt and equity in the ratio of 2.33:1, translating into an exposure of Rs.360 crore of equity investment by GACL spread over the next two years. However, with strong cash accruals and low debt repayment liabilities, GACL is expected to fund the same with reasonable comfort. Out of the total caustic soda to be produced from the JV plant, 54,750 MTPA would be provided to NALCO's alumina refinery and the remaining would be sold in the open market; the marketing rights of which would vest with GACL. The unit would also contain manufacturing facilities for other downstream products, for utilization of chlorine, an essential by-product generated for manufacturing of caustic soda. Thus, GACL will be exposed to marketing risk as well as risk of chlorine disposal for GNAL.

**Analytical approach: Standalone**

**Applicable Criteria**

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Rating Methodology-Manufacturing Companies

Financial ratios – Non-Financial Sector

**About the Company**

GACL; CIN: L24110GJ1973PLC002247 was promoted in 1973 by the Government of Gujarat (GoG) through its industrial investment arm, Gujarat Industrial Investment Corporation Ltd (GIIC). As on March 31, 2017, GoG as the promoter, through its various undertakings, held 46.28% equity in the company, the largest being through Gujarat State Investments Ltd (GSIL) with 20.87% holding. GACL is the largest player in the domestic caustic chlorine industry with integrated operations. It produces a wide range of products including caustic soda, liquid and gaseous chlorine, hydrogen peroxide, phosphoric acid and aluminium chloride which find application across a diversified group of industries including textile, pulp and paper, aluminium, detergents, soaps, rayon, plastics, pharmaceutical and agricultural chemicals. GACL's manufacturing facilities had a combined installed capacity for production of 412,500 Metric Tonne (MT) of caustic soda per annum.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	2,042	2,123
PBILDT	383	515
PAT	220	308
Overall gearing (times)	0.13	0.13
Interest coverage (times)	38.54	40.17

*A: Audited*

GACL reported total operating income of Rs.612 crore with PAT of Rs.95 crore during Q1FY18 as against total operating income of Rs.591 crore with PAT of Rs.86 crore during Q1FY17.

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Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

*Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.*

**Analyst Contact**

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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the Investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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**Annexure-1**

**Details of Instruments/ Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	July 2022	219.57	CARE AA+; Stable
Fund-based - LT-Cash Credit	-	-	-	130.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	45.00	CARE A1+
Commercial Paper-CP/STD	-	-	7-364 days	100.00	CARE A1+

**Annexure-2**

**Rating History (Last three years)**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	219.57	CARE AA+; Stable	-	1)CARE AA+ (20-Oct-16)	1)CARE AA+ (14-Oct-15)	1)CARE AA+ (05-Sep-14)
2.	Commercial Paper-CP/STD	ST	100.00	CARE A1+	-	1)CARE A1+ (20-Oct-16)	1)CARE A1+ (14-Oct-15)	1)CARE A1+ (05-Sep-14)
3.	Fund-based - LT-Cash Credit	LT	130.00	CARE AA+; Stable	-	1)CARE AA+ (20-Oct-16)	1)CARE AA+ (14-Oct-15)	1)CARE AA+ (05-Sep-14)
4.	Non-fund-based - ST-BG/LC	ST	45.00	CARE A1+	-	1)CARE A1+ (20-Oct-16)	1)CARE A1+ (14-Oct-15)	1)CARE A1+ (05-Sep-14)

*AS*  
*WJ*

**CARE Ratings Limited**

(Formerly known as Credit Analysis & Research Limited)

No. CARE/ARO/RL/2017-18/1708

Dr. H. B. Patel  
Executive Director (Finance) & CFO,  
Gujarat Alkalies and Chemicals Ltd,  
P.O. Petrochemicals,  
Vadodara,  
Gujarat - 391 346

September 29, 2017

Confidential


Dear Sir,

Credit Rating for Commercial Paper Issue

On the basis of recent developments including operational and financial performance of your company for FY17 (audited) and Q1FY18 (provisional), our Rating Committee has reviewed the following rating:

Instrument	Amount (Rs. Crore)	Rating <sup>1</sup>	Rating Action
Commercial Paper Issue	100.00 (Rupees One Hundred Crore Only)	CARE A1+ (A One Plus)	Reaffirmed

- The CP Issue would be for a maturity not exceeding one year.
- The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating has been communicated to you through letter no. CARE/ARO/RL/2017-18/1700.
- Please arrange to get the rating revalidated, in case the issue is not made within two months from the date of this letter.
- Please inform us the details of issue [date of issue, name of investor, amount issued, interest rate, date of maturity, etc.] immediately but not later than 7 days from the date of placing the instrument.
- CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.



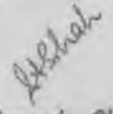
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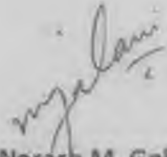
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8. Users of this rating may kindly refer our website [www.careratings.com](http://www.careratings.com) for latest update on the outstanding rating.
9. CARE ratings are not recommendations to buy, sell or hold any security.

If you need any clarification, you are welcome to approach us in this regards.

Thanking you,

Yours faithfully,

  
[Suyasha Shah]  
Deputy Manager  
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[Naresh M. Golani]  
Associate Director  
naresh.golani@careratings.com

Encl.: As above

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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**CARE Ratings Limited**  
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