Promoting Green Technology

Gujarat Alkalies and Chemicals Limited

P.O. Ranoli – 391 350 (Promoted by Govt. of Gujarat)

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Website : www.gacl.com **CIN NO :** L24110GJ1973PLC002247

Ref. : SEC/SE/2024/ 14th February, 2024

BSE Ltd. 1st Floor, New Trading Ring Phiroze Jeejeebhoy Towers Dalal Street MUMBAI : 400 001 **Ref. : Company Code No. : 530001**	National Stock Exchange of India Ltd. "Exchange Plaza", C-1, Block 'G' Bandra-Kurla Complex Bandra (East) MUMBAI : 400 051 **Ref. : Company Code No. : GUJALKALI**

Dear Sir/Madam,

Sub.: Further Intimation of Credit Rating by CARE Ratings Limited for –

(i) Long Term Bank Facilities of Rs.723.98 Crore
(ii) Short Term Bank Facilities of Rs.339.50 Crore
(iii) Commercial Paper Issue of Rs.100 Crore

Ref.: Our letter dated 09.02.2024

Pursuant to Regulation 30 read with Schedule III of Part A of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("the Listing Regulation"), as amended from time to time and SEBI Master Circular No. SEBI/HO/CFD/CFD-PoD-1/P/CIR/2023/123, we have submitted letters issued by CARE Ratings Limited on 9th February, 2024.

In addition to the letter(s) submitted by the Company, we are enclosing herewith the Rationale for the Ratings issued by the CareEdge Rating Agency.

We request you to kindly take the above on record.

Thanking you,

Yours faithfully,
For GUJARAT ALKALIES AND CHEMICALS LIMITED

SANJAY SUKHDEVBHAI BHATT
Digitally signed by SANJAY SUKHDEVBHAI BHATT
Date: 2024.02.14 11:59:14 +05'30'

(S S BHATT)
COMPANY SECRETARY &
CHIEF GENERAL MANAGER (LEGAL, CC & CSR)

Encl: As above

E-mail . cosec@gacl.co.in

9001:2015, 14001:2015, 45001:2018, 50001:2018
AN ISO CERTIFIED COMPANY

Dahej Comples : P.O. Dahej - 392130. Tal. Vagra, Dist. Bharuch (Gujarat) INDIA
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Gujarat Alkalies and Chemicals Limited

February 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	723.98	CARE AA; Stable	Revised from CARE AA+; Stable
Short-term bank facilities	339.50	CARE A1+	Reaffirmed
Commercial paper	100.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in long-term rating of Gujarat Alkalies and Chemicals Limited (GACL) factors significant moderation in its profitability in 9MFY24 (refers to the period April 1 to December 31) on the back of lower sales realisation lead by oversupplied domestic market condition in caustic soda industry. Moderation in its profitability has also led to weakening of its debt coverage indicators and liquidity. Further, sustained losses in its joint venture (JV) entity, viz., GACL-NALCO Alkalies & Chemicals Pvt Ltd (GNAL; rated 'CARE BBB+; Stable/ CARE A2') pressurises consolidated financial profile of GACL with expected financial support by GNAL from GACL.

Ratings assigned to the bank facilities and instrument of GACL continue to derive strength from its strong position in the domestic chlor-alkali industry along with its integrated operations and state-of-the-art technology. Ratings also derive strength from wide product portfolio, which finds application across diversified end-use industries, captive power generation to meet part of its energy requirement, along with its comfortable leverage. Ratings also draw comfort from the completion of its major ongoing capital expenditure (capex) in FY23 and expected growth in the scale of operations from the same in the near to medium term.

However, the long-term rating continues to be constrained due to its presence in an inherently cyclical chlor-alkali industry, as evident from the volatile electrochemical unit (ECU)[2] realisations leading to moderation in its operational performance in 9MFY24. Moreover, the ratings are constrained due to the competition from imports, the susceptibility of its profitability to adverse movement in the market prices of gas and power constituting a significant part of its cost structure, and the risk related to adverse movement in foreign exchange rates. Furthermore, the long-term rating is also tempered by the post-implementation saleability risks associated with its large-sized recently completed projects.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant volume-driven growth in its scale of operations along with diversification of its operations to other chemical products thereby insulating itself from inherent cyclicality of the chlor-alkali industry and thus earning healthy PBILDT margin on a sustained basis, along with improvement in total debt/PBILDT below 1.50x on a sustained basis.
- Gaining significant market leadership position in the caustic soda industry while securing significant portion of its power requirement (its major cost component) through captive low-cost sources along with greater share of value-added products in its sales mix to consistently earn high PBILDT margin with greater resilience, despite impact of inherent cyclicality in the chlor-alkali industry and competition from imports.
- Improvement in its return on capital employed (RoCE) to more than 25% on a sustained basis.

Negative factors

- Sustained pressure on its profitability marked by PBILDT margin remaining below 15% on a sustained basis owing to lower ECU realisations.
- Deterioration in consolidated total debt / PBILDT beyond 3.00x on a sustained basis.
- Heavy dumping of caustic soda products significantly impacting its ECU realisations.
- Any tightening of prevailing pollution control/ environmental norms and/or regulatory ban on production and sales of certain major products thereby significantly impacting its business and profitability.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications
[2]Caustic soda, chlorine and hydrogen are co-products and hence ECU refers to weighted average realizations of the above co-products.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered 'Consolidated' analytical approach for the ratings of GACL as there are strong operational and financial linkages of GACL with its JV company, i.e., GNAL, which has set up a caustic soda manufacturing facility at Dahej, wherein, GACL holds 60% equity stake as placed at Annexure -6.

Outlook: Stable

The 'Stable' outlook on the rating reflects that the entity shall continue to hold a dominant position in the domestic caustic soda industry with its integrated operations. CARE Ratings expects the entity to improve its financial risk profile with expected improvement in industry scenario in medium-term with no large debt-funded capex plans in the near term.

Detailed description of the key rating drivers:

Key strengths

Dominant position in the domestic caustic soda industry which is likely to be maintained

GACL is the second-largest player of caustic soda in the country, with an installed capacity (for caustic soda lye and caustic soda flakes combined) of around 2,230 metric tonne per day (MTPD) as on December 31, 2023, at its plants in Vadodara and Dahej, in Gujarat. GACL has gradually built a strong position in the industry through the continuous expansion of production capacities to cater to the growing demand for its products over the past four decades. It has already commissioned its caustic soda project in the JV with NALCO for 800 MTPD and has successfully completed its caustic soda expansion of 525 MTPD at its Dahej plant, which shall further consolidate its position in the chlor-alkali industry in India.

Over the years, GACL has also introduced new chlorine derivatives (downstream products) for higher captive utilisation of chlorine, an essential by-product generated during the manufacturing of caustic soda. The company has more than 36 products in its basket, which has enabled it to leverage upon its large production capacity and protect its profitability from the effects of the volatility in chlorine prices, to some extent.

Integrated operations and diversified customer base

GACL's operations are well-integrated, with the by-product of one process used as a raw material for another, thus enabling the company to optimally utilise its large production capacity. It also protects GACL's profitability, to an extent, from the effects of the inherent cyclicality in the demand for its major products, as the adverse demand scenario for one set of products is countered by the favourable movement in other products. GACL's products find application in various processes across a diverse range of industries, including textile, pulp and paper, alumina, soaps and detergents, rayon, fertilisers, petroleum, fertilisers, pharmaceuticals, agrochemicals, water treatment, ink, and paint among others. This allows the company to cater to a diversified customer base, and thus, helps it counter the slowdown in any industry or a group of industries.

Competitive cost structure owing to state-of-the-art technology and captive power generation to meet part of its energy requirements

GACL's cost structure has remained competitive because of its membrane cell technology used for the electrolysis of salt, which consumes one-third less power as compared to the traditional mercury cell technology and is also less polluting. The captive power plant (CPP) for meeting part of its energy requirements and the investment in windmills and solar power plants to offset the higher cost of power purchased from the market aids its cost structure. Total installed capacity of the solar power plant stood at 35 MW at the Charanka Solar Park – Patan, 640 kW floating solar power plant on the reservoir of the captive power plant, and 220 kW solar rooftop installations at its Dahej complex. This is apart from wind power generation capacity of 171.45 MW, captive 90-MW gas-based power plant, and 40-50 MW participation in a 145-MW group captive gas-based power plant operated by Gujarat Industries Power Company Limited (GIPCL; rated 'CARE AA-; Stable/CARE A1+'). The average cost of power consumed by GACL stood at ₹8.42 per unit in FY23. Moreover, GNAL has already commissioned its 130-MW coal-based CPP, wherein the excess power generated shall be availed by GACL as required.

Healthy capacity utilisation in-spite of industry headwinds

Company's total operating income (TOI) continued to increase in FY23 reflected by 20% growth on a y-o-y basis largely owing to the improved caustic realisations coupled with healthy demand in the industry. However, the PBILDT margin dipped from 26.38% in FY22 to 24.56% in FY23, primarily due to moderation in caustic realisations in Q4FY23 and increase in power and fuel costs during the year. The profit after tax (PAT) margin also declined to 9.10% in FY23 from 14.91% in FY22 primarily due to losses reported in its JV, GNAL, as well as higher finance cost due to high interest rates during the year. In 9MFY24, company's TOI decreased to ₹2,805 crore despite operating at an optimum capacity utilisation mainly due to continued decline in the caustic realisations during the period.

Comfortable capital structure albeit expected to moderate on consolidation of JV
GACL's capital structure remained comfortable, with an overall gearing of 0.10x as on March 31, 2023. Its debt coverage indicators stood strong, marked total debt/ PBILDT improved at 0.54x as on March 31, 2023 (1.49x as on March 31, 2022) owing to healthy operating profitability during the year coupled with minimal increase in debt. However, due to dip in its operating profitability in 9MFY24, its PBILDT interest coverage moderated to 0.88x as against 56x in FY23. Furthermore, its debt coverage indicators are expected to moderate over the medium term considering the consolidation of the JV, i.e., GNAL, which stabilised its operations in FY23. However, the debt coverage indicators are expected to be supported by gradual repayment of debt as well as healthy cash accruals on the back of commissioning of its large-size projects in FY23.

Liquidity: Strong
Liquidity of GACL is marked by presence of liquid investments to the tune of ₹176 crore as on December 31, 2023 (₹527 crore as on March 31, 2023). With an overall gearing of 0.10x as on March 31, 2023, it has sufficient gearing headroom to avail additional debt. Although over the past few years, the company has largely funded its capex through its healthy internal cash accruals. GACL has recently commissioned most of its ongoing capex and has no major debt-funded capex plans in the near term. The company's entirely unutilised bank lines are more than adequate to meet its incremental working capital needs over the next one year despite losses in 9MFY24. Furthermore, the operating cycle remained comfortable at 24 days in FY23 (FY22: 26 days), and the current ratio remained healthy at 1.67x as on March 31, 2023 (1.48x as on March 31, 2022).

Key weaknesses

Significant deterioration in profitability in 9MFY24 on the back of oversupplied industry scenario leading to moderation in debt coverage indicators
Post reporting healthy profitability in FY22 and FY23, GACL's performance impacted from Q4FY23 onwards and sustained to deteriorate further in 9MFY24 on a Q-o-Q basis. GACL reported PBILDT margin of 0.98% in 9MFY24 vis-à-vis 24.56% in FY23 which was mainly due to weak caustic soda industry scenario which is currently in an oversupplied situation on the back of large capacity additions in recent past. ECU realisations which had peaked to around ₹55,000/MT in FY23 has moderated and currently stands at around ₹30,000/MT adding significant pressure on operating profitability margins of GACL. Further, GACL had commissioned large size capex in FY22 and FY23, which is also not yielding desired returns while adding overhead costs leading to net losses in 9MFY24. CARE Ratings expects operating profitability to remain weak in the near term due to weak demand and oversupply scenario in the market.
Due to net losses reported by GACL in 9MFY24, its debt coverage indicators have been impacted marked by interest coverage of 0.88x in 9MFY24 vis-à-vis 56.83x in FY23. GACL's available liquidity out of its past years' cash accruals is expected to help it in meeting its debt servicing obligations till the time there is improvement in the industry scenario.

Susceptibility of its profitability to adverse movement in gas and power prices and threat of cheaper import
GACL's profitability is susceptible to adverse movements in the market prices of gas and power since electrolysis is an energy-intensive process and power cost constitutes a significant part of its cost structure. Power cost constituted around 33% of GACL's TOI in FY23 (FY22: 29%). Besides, the Indian chlor-alkali industry faces competition from cheap imports from lower power-cost countries. Of India's total imports, more than 90% are contributed by Japan, China, Korea, Qatar, and Iran, with over 50% imports from Japan alone, mainly due to the tax treaty and lower logistics cost to cater to the requirement of aluminium manufacturers on the eastern coast of India. Domestic manufacturers have sought a level-playing field from the government by way of an increase in customs duty on caustic soda imports, a GST structure for electricity taxes, and the imposition of export duty on salt, to effectively compete against imports.

Risk of adverse movement in foreign exchange rates
GACL is exposed to the risk of adverse movement in foreign exchange rates because of its long-term borrowings denominated in US Dollar, raised for part-funding of its capex plans. As a matter of policy, GACL does not hedge its foreign currency exposure. In FY23, GACL imported raw materials of around ₹466 crore and had term debt repayment liabilities of ₹44 crore, against which it made exports of around ₹752 crore, thus providing a natural hedge to its foreign currency exposure to a large extent. Moreover, to mitigate its forex risk, GACL has opened an Exchange Earners' Foreign Currency Account (EEFC) US Dollar account, as per the Reserve Bank of India (RBI) guidelines, to deposit the export earnings in the said account and to utilise the same for making US Dollar repayments towards servicing its foreign currency debt and import pay-outs. This mitigates the exchange rate risk to a large extent.

Saleability risk associated with large-sized recently completed projects

In FY23, GACL commissioned major ongoing capex of expanding the caustic soda capacity by 525 TPD and chloromethane plant after facing delays in completion on account of COVID-19 pandemic. As a part of the expansion plan, GACL also commissioned a new 700-TPD caustic evaporation unit. Furthermore, the company commissioned a hydrazine hydrate plant in September 2022 and phosphoric plant in April 2023. No major capex is expected in the near term except the ongoing chlorotoluene project of ₹350 crore which is planned to be funded by internal accruals and term debt. However, this capex is also largely deferred for FY25. CARE Ratings notes that the company has completed its major debt-funded capex in FY23 and has no major debt-funded capex plans in the near term. However, the company is still exposed to the stabilisation risks associated with its recently completed projects.

Weak performance of GNAL requiring financial support from its sponsors, viz., GACL and NALCO

GACL's project under the 60:40 JV with NALCO, viz, GNAL, for setting up a manufacturing unit for producing an 800 MTPD of caustic soda plant along with a 130-MW captive power plant at Dahej, in the vicinity of GACL's existing plant, had commissioned operations on March 30, 2022, along with its one unit of coal-based captive power plant (CPP) of 65 MW and the second unit of CPP (65 MW) commissioned operations in April 2023. From the caustic soda produced from the plant, at least 450 MTPD has been agreed to be sold to NALCO (Odisha plant) at market rates and the remaining will be sold in the open market, the marketing rights of which will vest with GACL. The unit also contains manufacturing facilities for other downstream products and for the utilisation of chlorine, an essential byproduct generated for manufacturing caustic soda. Balance quantities of all the products manufactured by the JV will be sold by GACL as the sole commission selling agent of the JV. Thus, GACL will be exposed to the marketing risks as well as the risk of chlorine disposal for GNAL. GNAL's project completion was with significant delay and due to challenges in chlorine disposal, its plant could not ramp-up production in FY23 leading to significant cash losses in FY23. Furthermore, in 9MFY24, GNAL continued to report cash losses on back of lower ECU realisations despite increase in its production levels. On the back of lower ECU realisations prevailing in the market, CARE Ratings expects GNAL to continue to incur cash losses in FY24, necessitating timely financial support from both of its promoters.

Environment, social, and governance (ESG) risks

Risk factors	Compliance and action by the company
Environmental	The treated wastewater after conforming to Gujarat Pollution Control Board (GPCB) norms is discharged to channel of Vadodara Enviro Channel Limited (VECL) which is finally discharged into Bay of Khambhat. GACL's air emission is maintained within GPCB norms. The waste is disposed of at the Treatment, Storage and Disposal facility (TSDF) or Common Hazardous Waste Incineration Facility (CHWIF) depending on whether the same is hazardous or otherwise. GACL ensures energy audit at regular intervals and has installed 35-MW solar power plant and 171.45 MW of wind power plants.
Social	GACL follows all the required protocols for its employee safety and well-being. For instance: providing personal protective equipment and trainings to workers on safety and health aspects of handling chemicals.
Governance	50% of the GACL's board comprises independent directors. GACL has a dedicated investor grievance redressal mechanism with healthy disclosures. GACL assures separate meetings for independent and non-independent directors along with regular internal risk management committees to address the risks and measures to mitigate them.

Applicable criteria

CARE'S policy on default recognition
Rating methodology - Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Criteria on assigning 'Rating Outlook' and 'Credit Watch' to credit ratings
Rating methodology - Manufacturing Companies
Rating methodology - Short Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & petrochemicals	Commodity chemicals

GACL was promoted in 1973 by the Government of Gujarat (GoG) through its industrial investment arm, Gujarat Industrial Investment Corporation Limited (GIIC). As on December 31, 2023, GoG as the promoter, through its various undertakings, held 46.28% equity in the company, the largest being through Gujarat State Investments Limited (GSIL) with 20.87% holding. GACL is the second-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 applications across a diversified group of industries, including textile, pulp and paper, aluminium, detergents, soaps, rayon, plastics, pharmaceuticals, water treatment, and agricultural chemicals.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (Prov.)
Total operating income	3,755	4,503	2,805
PBILDT	990	1,106	28
PAT / (Net loss)	560	410	(191)
Overall gearing (times)	0.10	0.10	NA
PBILDT interest coverage (times)	161.15	56.83	0.88

A: Audited; Prov.: Provisional; NA: Not available; Financials are reclassified as per CARE Ratings' standards.
Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Please refer to Annexure-4.

Lender details: Please refer Annexure-5.

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper-CP/STD*	-	-	-	7-364 days	100.00	CARE A1+
Fund-based - LT-Cash credit	-	-	-	-	130.00	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	339.50	CARE A1+
Term loan-Long term	-	-	-	March 2028	593.98	CARE AA; Stable

*No commercial paper was outstanding as on February 01, 2024

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type*	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Term loan-Long term	LT	593.98	CARE AA; Stable	1)CARE AA+; Stable (20-Sep-23) 2)CARE AA+; Stable (26-Jun-23)	1)CARE AA+; Stable (27-Jun-22)	1)CARE AA+; Stable (06-Jul-21) 2)CARE AA+; Stable (07-May-21)	1)CARE AA+; Stable (06-Oct-20)
2	Commercial paper-CP/STD	ST	100.00	CARE A1+	1)CARE A1+ (20-Sep-23) 2)CARE A1+ (26-Jun-23)	1)CARE A1+ (27-Jun-22)	1)CARE A1+ (06-Jul-21)	1)CARE A1+ (06-Oct-20)
3	Fund-based - LT-Cash credit	LT	130.00	CARE AA; Stable	1)CARE AA+; Stable (20-Sep-23) 2)CARE AA+; Stable (26-Jun-23)	1)CARE AA+; Stable (27-Jun-22)	1)CARE AA+; Stable (06-Jul-21) 2)CARE AA+; Stable (07-May-21)	1)CARE AA+; Stable (06-Oct-20)
4	Non-fund-based - ST-BG/LC	ST	339.50	CARE A1+	1)CARE A1+ (20-Sep-23) 2)CARE A1+ (26-Jun-23)	1)CARE A1+ (27-Jun-22)	1)CARE A1+ (06-Jul-21) 2)CARE A1+ (07-May-21)	1)CARE A1+ (06-Oct-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial paper-CP/STD	Simple
2	Fund-based - LT-Cash credit	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Term loan-Long term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	GACL-NALCO Alkalies & Chemicals Pvt Ltd	60%	GACL holds 60% stake

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in