



TANFAC Industries

About

Tanfacs Industries is a joint venture company promoted by the Aditya Birla Group and Tamil Nadu Industrial Development Corporation. It manufactures organic & inorganic fluorine based chemicals. Fluorochemicals are majorly used in air conditioning, refrigeration, cold storage and life sciences/ pharma segment. The company's main product is hydrofluoric acid (HF). HF has a wide range of applications. It is used in manufacturing uranium tetrafluoride, which is used for making nuclear fuel and fission explosives. HF is also in the making of various fluorine based chemicals used in metallurgy, wood preservatives, herbicides, mouth-washes and water fluoridation. Fluorine is a highly reactive element and it is not very easy to master the chemistries based on fluorine.



- Company uses raw material called fluorspar. China is a major producer of fluorspar. Hence, raw material prices depend to a large extent on global production. China has closed many fluorspar mines owing to environmental concerns. This has led to an increase in global prices of fluorspar.
- Environmental concerns may reduce the demand for fluorochemicals.
- The company imports sulphur and fluorspar, the prices of both are related to the stability of USD. Volatility in USD can adversely impact margins.
- The company derives a big chunk of revenues from hydrofluoric acid. The demand for HF acid is volatile in nature.
- Use of fluorine has been a controversial area for long. Chlorofluoro carbons are known for damaging the ozone layer. Any increased activism on environmental front may impact the company's business.



- The company has made a conscious choice to reduce focus on low contribution products like aluminium fluoride, and increase focus on high margin specialty fluorochemicals.
- Hydrofluoric acid is used in the manufacture of hydrofluorocarbons (HFC). HFCs are used as alternative to chlorofluorocarbons (CFCs). CFCs are known to cause depletion of ozone layer. Efforts are being made worldwide to increase the consumption of HFCs. Manufacturing HFCs requires more hydrofluoric acid when compared with CFCs.
- The company has significantly deleveraged its balance sheet in the recent past.
- No major institutional holding and good enough promoter holding of 51%.
- Free cashflow/ cash from operations ratio is healthy for the last 5 years. This indicates that the business is not very capex intensive
- Refrigeration, cold storage and air-conditioning has a good scope for growth in India. Owing to its product mix, Tanfac is a proxy play on India's hot tropical climate.

Points not covered



- Why is the mining of fluorspar in India not picking up, and we still depends on imports?
- Are there any technological challenges for mining fluorspar in India?
- Detailed financial statement analysis.
- Pricing contracts that the company has with customers: is it able to pass on the increase in fluorspar prices?

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