August 30, 2022

Lloyd Insulations (India) Limited: Ratings upgraded and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based-Cash Credit	60.00	60.00	ICRA]BBB(Stable), upgraded from [ICRA]BBB-(Stable) and simultaneously withdrawn
Non-Fund-based-LC/BG	459.22	459.22	[ICRA]A3+, upgraded from [ICRA]A3 and simultaneously withdrawn
Unallocated Limits	35.00	35.00	ICRA]BBB(Stable), upgraded from [ICRA]BBB-(Stable) and simultaneously withdrawn
Total	**554.22**	**554.22**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade for Lloyd Insulations (India) Limited (LIIL) factors in expectations of a moderate-to-healthy revenue growth while maintaining a comfortable credit profile and liquidity position on the back of favourable domestic demand growth prospects and a good order book position. The company's order book of ~Rs. 961.9 crore as of March 2022 (i.e., ~1.1 times of FY2022 revenues) indicates healthy revenue visibility for FY2023-24. Moreover, a healthy order intake is expected in the current fiscal with substantial capital investments in the public and private sectors.

The ratings continue to consider LIIL's established position in the insulation business, and its reputed and diversified client profile. The company also benefits from its integrated operations, which offer a comprehensive range of products and services in the insulation segment. The ratings factor in a healthy capital structure with strong net worth position, limited external debt along with comfortable debt coverage indicators and liquidity, reflected in the available cash and bank balances.

The ratings, however, are constrained by LIIL's modest return indicators with ROCE ranging between 6% and 11% in the last five years, resulting from a moderate operating margin and long working capital cycle. ICRA notes that the available fund-based limits vis-a-vis the scale of operations is limited, and the working capital requirements are partly met by the mobilisation advances (largely interest free) from customers and the elongation of credit period from suppliers.

The ratings are also inhibited by high competitive intensity in the thermal insulation segment and the vulnerability of profitability to the fluctuations in raw material prices because of fixed-price contracts though the recent development of inserting an escalation clause in the contracts will provide some support.

ICRA also notes that LIIL provides funding support to a financially weak joint venture - PEB Steel Lloyd (India) Limited (PEBSL) - for the purchase of raw materials. PEBSL is a joint venture of LIIL (49.99% stake) and PEB Steel Asia Limited (50.01% stake). LIIL has also provided corporate guarantee to the bank limits of PEBSL.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that LIIL's revenues and accruals will be supported by its comfortable order book position and a healthy order inflow expected on the back of favourable demand growth prospects.

Subsequently, ICRA has withdrawn the ratings assigned to the bank facilities of LIIL. The ratings have been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings at the request of the company and based on the no-objection letter received from the issuing banks.

Key rating drivers and their description

Credit strengths

Backward-integrated operations, with over six decades of established track record – In-house manufacturing along with the presence of group companies (viz. IETL and PEBS) in the related value chain of pre-engineered building and rockwool products provides control over quality and results in better competitive positioning. LIIL has over six decades of experience in the insulation business, covering an entire gamut of thermal insulation project execution activities and encompassing designing, sourcing, supplying, and erecting thermal insulation products.

Diversified and reputed clientele spread across wide spectrum of industries- LIIL has a diversified and reputed customer base. Some of the major customers of the company are Doosan Power Systems, Toyo Engineering India Limited, Reliance Industries Limited, Suzuki Motors Gujarat Private Limited etc, which are spread across various sectors such as power, petrochemicals, fertiliser, construction, industrial customers such as steel, cement, automobiles, airports, food preservatives and logistics, providing diversification to the company. Hence, the diverse customer base shields the company from the adverse fluctuations in revenues caused by the downturns in some industries.

Adequate order book position – As on March 31,2022, LIIL's unexecuted order book position was Rs 961.9 crore (1.1 times FY2022 revenues), offering adequate revenue visibility over the near term. The proven operational track record, established relationship with key clientele and the healthy bid conversion in the past provide comfort even as any slowdown in the capex spend of a major client could adversely impact new order accretion and execution.

Healthy capital structure and comfortable debt coverage indicators – LIIL's capital structure is comfortable due to its strong net worth and limited external debt, which mainly comprises working capital facilities and GECL Loan. The debt coverage indicators were comfortable with total debt/OPBDITA of 1.24 times, interest coverage of 2.85 times and TOL/TNW of 1.06 times as on March 31, 2022. The coverage metrics are expected to be comfortable on expectations of modest revenue growth and profits in FY2023 and FY2024 on the back of a reasonable order book, despite the headwinds from elevated raw material prices. Further, the coverage metrics may remain comfortable if the company is able to efficiently manage its working capital requirements.

Credit challenges

Modest operating profit margin and return indicators; profitability vulnerable to adverse movements in raw material prices – LIIL's operating profitability remained moderate in the range of 4-6% for the past five years. This resulted in subdued return indicators with ROCE in a range of 6-11% during this period. LIIL operates in segments where the entry barriers are low and hence the competitive intensity is high. Consequently, the profitability margin remains modest. The operating profit margin is also exposed to the variations in raw material prices due to fixed-price orders. Steel prices have increased substantially over the past few months and are at a multi-year highs now amid some moderation seen recently. This led to high raw material cost for the company and moderated the margin for FY2022 on a consolidated basis.

High working capital intensity - LIIL's working capital intensity remained high with NWC/OI at 22% as on March 31, 2022, increased from 16% as on March 31, 2021. This was primarily on account of an elongated receivable cycle, given the milestone-linked payments and the blockage of significant amount as retention money. LIIL's profitability and liquidity can be adversely impacted by a write-off or delay in the realisation of receivables. LIIL's working capital requirements are partly met through mobilisation advances from customers and high credit period from suppliers. Going forward, the working capital intensity is expected to remain high, given the working capital intensive nature of operations.

Support to weaker joint venture (PEBSL) and financial support for raw material purchases - LIIL has provided corporate guarantee to the bank limits of PEBSL whose financial position is weak. LIIL also provides financial support to PEBSL by purchasing raw material on the latter's behalf. The JV may continue to need financial support if the demand for pre-engineered building products weakens in the near term amid the sharp increase in steel prices.

Liquidity position: Adequate

LIIL's liquidity position is adequate. The company's fund flow from operations is expected to remain positive over the next fiscal and would be adequate to comfortably meet its modest long-term debt repayment and LC obligations. Its liquidity is further supported by the presence of free cash and liquid investments (lien free FDs) of Rs 90.21 crore as on March 31,2022. The presence of sufficient cushion in working capital limits provides additional buffer in liquidity position.

Rating sensitivities- Not applicable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Policy on Withdrawal of Credit Ratings](#)
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of LIIL. Please refer to the annexure for details of consolidated entities.

About the company

LIIL, incorporated in 1956, is a turnkey contractor and manufacturer of thermal and acoustic insulation products, refractory linings, pre-engineered & prefabricated buildings, polyurethane-based insulation products and sandwich panels. The company has over six decades of experience in the insulation products segment. Promoted by Mr. N.P. Punj, Mr. C.P. Khanna and Mr. P.P.Munjal, the company initially manufactured ceramic fibre insulation products. Subsequently, it ventured into the manufacturing of rockwool/mineral wool-based and polyurethane-based thermal insulation products. In 1997, LIIL diversified its area of operations and entered the business of erecting pre-engineered buildings (PEB) in India. At present, the company's manufacturing units are at Pitampur in the Dhar district of Madhya Pradesh and Cheyyar Taluk in the Thiruvannamalai district of Tamil Nadu.

Key financial indicators

Consolidated	FY2020	FY2021	FY2022*
Operating income (Rs. crore)	947.20	721.97	983.45
PAT (Rs. crore)	19.16	6.38	20.35
OPBDIT/OI (%)	5.59%	5.12%	4.59%
PAT/OI (%)	2.02%	0.88%	2.07%
Total outside liabilities/Tangible net worth (times)	1.17	1.18	1.06
Total debt/OPBDIT (times)	1.67	1.54	1.24
Interest coverage (times)	2.56	1.88	2.85

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating on	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Aug 30, 2022	May 12, 2021	May 21, 2020	Feb 14, 2020
1	Cash Credit	Long-term	60.00	-	[ICRA]BBB (Stable); Withdrawn	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB+ (Stable)
2	Non-Fund Based – LC/BG	Short-term	459.22	-	[ICRA]A3+; Withdrawn	[ICRA]A3	[ICRA]A3	[ICRA]A2
3	Unallocated	Long-term	35.00	-	[ICRA]BBB (Stable); Withdrawn	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB+ (Stable)

Amount in Rs. Crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-Term Fund Based – Cash Credit	Simple
Short-Term Non-Fund Based – LC/BG	Very Simple
Long-Term – Unallocated Limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-Term Fund Based – Cash Credit	NA	NA	NA	60.00	[ICRA]BBB (Stable); Withdrawn
NA	Short-Term Non-Fund Based – LC/BG	NA	NA	NA	459.22	[ICRA]A3+; Withdrawn
NA	Long-Term – Unallocated Limits	NA	NA	NA	35.00	[ICRA]BBB (Stable); Withdrawn

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidated Approach
Isolloyd Engineering Technologies Limited (IETL)	51.00%	Full Consolidation
PEB Full consolidation Steel Lloyd (India) Limited (PEBS)	49.99%	Equity Method
Lloyd Insulations International FZE, Nigeria	100.00%	Full Consolidation

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