November 19, 2024

Lords Chloro Alkali Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Working capital	20.00	30.00	[ICRA]BBB+(Negative); reaffirmed and assigned for enhanced amount
Long term – Fund based – Term loan	14.25	90.00	[ICRA]BBB+(Negative); reaffirmed and assigned for enhanced amount
Long term – Unallocated	7.65	6.90	[ICRA]BBB+(Negative); reaffirmed
Total	**41.90**	**126.90**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation and continuation of the Negative outlook for the bank line ratings of Lords Chloro Alkali Limited (LCAL) factors in the continued weakness in caustic soda realisations, which exerted pressure on the overall cash flow generation in H1 FY2025 and the trend is likely to continue in the near term. While the prices have started to improve, it remains to be seen whether these price levels will be sustained, especially in an oversupply scenario. LCAL's revenue and profits were impacted Q4 FY2023 onwards when caustic soda realisations started to moderate, and the financial metrics were badly hit in FY2024. The performance has started improving to some extent from Q1 FY2025, driven by higher sales volume and realisations of caustic soda and increase in the capacity of chlorinated paraffin wax (CPW). In FY2024, the company reported net losses of Rs. 4.80 crore. This situation is likely to improve as the products are expected to fetch better realisations, leading to a steady improvement in the financial risk profile.

The rating continues to factor in the extensive experience of LCAL's management in the chlor-alkali industry. Further, the rating takes into account LCAL's locational advantage owing to its proximity to the end-user industry and its long-standing relationship with reputed customers.

Power costs, which comprise 60-70% of the total input costs for manufacturing caustic soda, have remained largely stable for LCAL as Jaipur Vidyut Vitaran Nigam Limited (JVVNL) - from which LCAL sources power - has not revised the tariff since a long time. Moreover, in order to lower the power costs, the company has undertaken capex to set up a solar capacity of 16 MW along with capacity expansion in the caustic soda division. The company also plans to enhance both the caustic soda and solar capacity, which will result in sizeable debt-funded capex that would moderate the leverage and coverage metrics in the near term. The benefits of solar power generation for the company's profitability is likely to get reflected from FY2026 and will protect it against the volatility in caustic soda prices. ICRA will continue to monitor the developments in this regard.

The profitability remains vulnerable to the volatility in caustic soda prices owing to the commoditised nature of the product and the cyclicality associated with the chlor-alkali industry, as has been the case currently. Moreover, tepid global demand conditions and the domestic oversupply situation can also impact the realisations. The profitability is further susceptible to adverse power tariff revisions. The rating is also constrained by the company's small scale of operations vis-à-vis other major industry players. Disposal of chlorine, a by-product in the production of caustic soda, remains an issue for industry players. For this, the company has undertaken downstream integration into manufacturing CPW and hydrochloric acid.

Key rating drivers and their description

Credit strengths

Experienced and professional management - LCAL benefits from the extensive experience of its promoters in chloro-alkali chemicals. The key promoter - Mr. Madhav Dhir - and his team have a long track record in the industry. This apart, the company is managed by Mr. Ajay Virmani, who is experienced in chloro-alkali chemicals. The management has well-established relationships with customers and suppliers.

Demand recovery for caustic soda - Caustic soda realisations started to moderate from Q4 FY2023 and FY2024 was impacted badly. However, the realisations have started improving from Q1 FY2025. The prices have increased in the current quarter and, thus, the profitability is expected to improve in the current quarter though it remains to be seen whether this profitability levels are sustained.

Locational advantage of plants for disposal of chlorine; availability of raw material and key inputs - Chlorine remains one of the major by-products of the caustic manufacturing process and is a hazardous chemical. At times, it is sold at negative realisations, indicating that LCAL has to bear the freight expenses on top of some discounts. The company is setting up chlorine downstream projects to use some of this chlorine in-house, such as producing sodium hypo, chlorinated paraffin wax (CPW) and bleaching powder. At present, chlorine realisation is negative, although it has the locational advantage of selling the chemical in the nearby manufacturing units.

Credit challenges

Vulnerability of profitability to fluctuations in caustic soda and chlorine prices along with power cost - The profitability of caustic soda manufacturing companies depends on ECU realisations. Cyclical downturns or adverse variability in the demand-supply balance may drag down the realisations of caustic soda players. Power accounts for a major cost of production for the chlor-alkali industry, constituting 60-70% of the production cost. Companies with captive power plants are usually at an advantage. However, LCAL's unit is dependent on JVVNL. Hence, any upward revision in the power tariff by JVVNL can adversely impact LCAL's profitability. However, it is setting up a 16-MW solar power plant in Bikaner which will result in power cost savings.

Sizeable debt-funded capex to impact leverage metrics – The company is undertaking large debt-funded capex, which is anticipated to moderate its debt protection metrics in the near to medium term. The total capex is Rs. 150 crore, which will be funded by a term loan of Rs. 89.5 crore and the balance by the available cash and internal accruals. The company would remain exposed to project execution risks and the successful completion of these projects in a timely manner and the expected benefits from them will remain the key monitorable. While the capex is sizeable and bunched up over 1-2 years, the cost benefits arising from the solar plant are substantial and have the potential to insulate the company from the volatility in caustic soda prices to some extent.

Small scale of operations vis-à-vis industry players - At present, LCAL has 220 MTPD of caustic soda manufacturing capacity (which is expected to increase by 90 MTPD by December 2024) and remains a significantly smaller player vis-a-vis the other industry incumbents, which limits LCAL's ability to withstand cyclical downturns, as can be seen in the current scenario where the company has reported losses.

Environmental and Social Risks

Chlorine is a by-product in the caustic soda manufacturing process and its disposal remains a key concern for the industry. LCAL, being present in the chemical industry, is exposed to the risk of tightening regulations on environment and safety, which can have a potential bearing on the cost structure or lead to a moderate capital outlay for mitigation and treatment. As per the disclosure made by LCAL in its annual report for FY2024, it has been compliant with the environmental regulations. Further, the company is making efforts to consume chlorine by venturing into downstream products like chlorinated paraffin wax, bleaching powder, etc.

Liquidity position: Adequate

The liquidity position of the company is expected to improve in the current fiscal, driven by the healthy cash generation expected from operations. While the capex is expected to remain high over the next two years, the healthy cash balance and buffer in working capital limits is likely to keep the liquidity adequate.

Rating sensitivities

Positive factors – The outlook can be revised to Stable in case of a sustained uptick in revenue and profit generation, leading to an improvement in the debt coverage metrics and liquidity position.

Negative factors – The rating may be downgraded if the company is unable to improve its profitability and debt coverage metrics, resulting in a deterioration of the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemicals
Parent/Group support	Not Applicable
Consolidation/Standalone	To arrive at the ratings, ICRA has considered the standalone financials of LCAL

About the company

Lords Chloro Alkali Limited (LCAL) was incorporated in March 1979 as a public limited company by the Modi Group of Industries. The company's shares are listed on the Bombay Stock Exchange, and it is engaged in the manufacturing of the chloro-alkali range of chemicals. The manufacturing plant is at Alwar (Rajasthan). The company supplies majority of its products to the paper, soap and plastic industries based in UP, Haryana, Rajasthan, Punjab and Delhi.

LCAL was incorporated as Modi Alkalies and Chemicals Limited (MACL). It commenced production from its 190-tonnes-per-day (TPD) mercury-based chlor-alkali plant at Alwar in 1983. The Modi Group headed MACL during the 1980s and 1990s. In the late 1990s, the company's financial position became very weak on account of the inexperience of the promoters in the chlor-alkali business and the high interest burden on the loans taken for the capacity added in 1997. The promoters then filed reference with BIFR, based on which the company was declared sick in January 2002.

The company was taken over by the current promoters, viz. Mr. Alok Dhir and Mr. Ashok Kumar, in March 2005. The new promoters filed a rehabilitation scheme in BIFR, which was sanctioned in November 2006 and the company got deregistered from the BIFR in March 2010. The management decided to revamp and get the old machineries changed during 2011 to 2014. The commercial production again started in January 2015.

Key financial indicators (audited)

LCAL	FY2023	FY2024
Operating income	295.05	221.11
PAT	53.20	-4.8
OPBDIT/OI	28.4%	0.4%
PAT/OI	18.0%	-2.2%
Total outside liabilities/Tangible net worth (times)	0.40	0.59
Total debt/OPBDIT (times)	0.27	51.49
Interest coverage (times)	34.76	0.40

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
Brickwork	BWR B+ (Stable)/ BWRA4; continues to be in ISSUER NOT COOPERATING category; long-term rating downgraded from BWR BB (Stable) and short-term rating reaffirmed	April 11, 2024

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount rated (Rs. crore)**	**Nov 19, 2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Fund-based – Working capital	Long term	30.00	[ICRA]BBB+ (Negative)	Mar 01, 2024	[ICRA]BBB+ (Negative)	Oct 18, 2022	[ICRA]BBB+ (Positive)	Dec 24, 2021	[ICRA]BBB (Stable)
				Jul 11, 2023	[ICRA]BBB+ (Stable)			Dec 02, 2021	[ICRA]BBB (Stable)
Fund-based – Term loan	Long term	90.00	[ICRA]BBB+ (Negative)	Mar 01, 2024	[ICRA]BBB+ (Negative)	Oct 18, 2022	[ICRA]BBB+ (Positive)	Dec 24, 2021	[ICRA]BBB (Stable)
				Jul 11, 2023	[ICRA]BBB+ (Stable)			Dec 02, 2021	[ICRA]BBB (Stable)
Unallocated	Long term	6.90	[ICRA]BBB+ (Negative)	Mar 01, 2024	[ICRA]BBB+ (Negative)	Oct 18, 2022	[ICRA]BBB+ (Positive)	-	-
				Jul 11, 2023	[ICRA]BBB+ (Stable)				

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working capital	Simple
Long-term fund-based – Term loans	Simple
Long-term- Unallocated	Not Applicable

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Working capital**	NA	NA	NA	30.00	[ICRA]BBB+(Negative)
NA	**Fund-based term loans**	May 2019	NA	FY2023-FY2028	90.00	[ICRA]BBB+(Negative)
NA	**Unallocated**	NA	NA	NA	6.90	[ICRA]BBB+(Negative)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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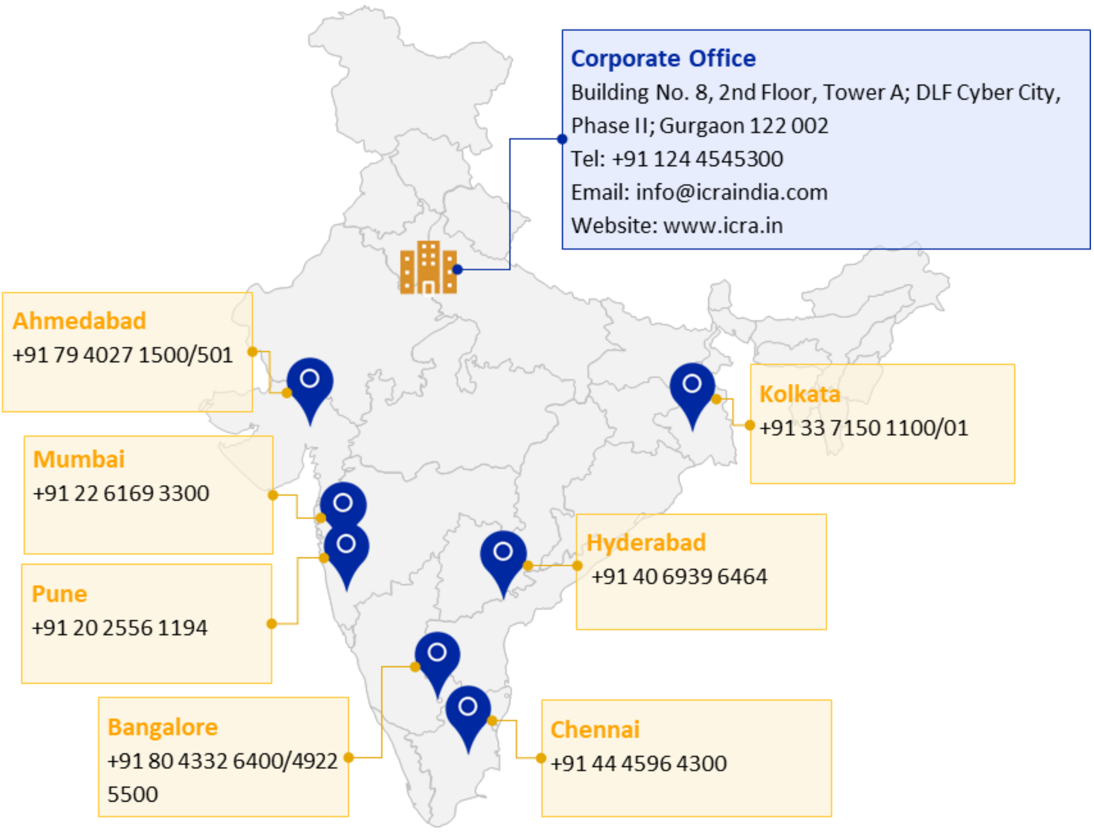

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