October 06, 2020 (Revised)

Chloride Metals Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Cash credit	35.0	115.0	[ICRA]AA(Stable); reaffirmed
Non-fund based limits	380.0	300.0	[ICRA]A1+; reaffirmed
Total	**415.0**	**415.0**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation considers Chloride Metals Limited's (CML) strong operational, managerial and financial linkages with Exide Industries Limited (EIL, rated at [ICRA]AAA/Stable, [ICRA]A1+), which holds a 100% equity stake in CML. The company's entire sales are made to EIL. It accounts for ~30% of EIL's lead alloys requirement at present, which would increase to ~70-75% over the short term with the commissioning of the Haldia unit. In addition, the ratings continue to factor in CML's conservative capital structure and strong debt coverage metrics. The ratings are also supported by CML's comfortable liquidity position on the back of a favourable working capital cycle, given favourable payment terms with EIL. The ratings, however, are constrained by the limited value addition in the company's manufacturing process, which results in low operating margins as indicated by an OPM of ~1.1% in FY2020. The margins are further impacted due to its exposure to commodity price fluctuation risks and the competition that it faces from organised as well as unorganised smelting units.

ICRA notes that while the sale volumes were impacted in Q1 of FY2021 due to the pandemic, full year volumes are expected to be supported by the commissioning of the new plant. Moreover, CML's share of business in EIL would increase in the near term as supplies from the new plant would replace some of the external purchase of lead alloys by EIL. While there would be some increase in leverage due to debt contracted to part fund the capex, leading to moderation in debt coverage indicators, on an absolute basis the debt metrics would continue to remain healthy.

The Stable outlook reflects ICRA's expectation that CML's cashflows would remain healthy relative to its debt service obligations. The company would continue to benefit from being a 100% subsidiary of EIL, which accounts for the entire sales of the company, along with EIL's dominant position in the domestic battery market.

Key rating drivers and their description

Credit strengths

Strong operational, managerial and financial linkages with EIL – CML is a strategically important subsidiary of EIL and receives strong operational, managerial and financial support from its parent. EIL's battery manufacturing process requires lead alloys, a part of which is procured from CML. Procurement of alloys from its 100% subsidiary allows EIL to have control over the quality of the important raw materials and maintain technical superiority to an extent. Until now, CML was supplying only to EIL's plant is western part of the country, but with the commissioning of the Haldia plant, CML will be able to supply to EIL's plant in the East as well, further strengthening the operational linkages.

Low demand risks – CML's lead alloys have low demand risk as 100% of the company's products are sold to EIL. As on date, ~30% of EIL's overall lead alloy requirement is supplied by CML, which is expected to increase to ~70-75% post commissioning of the Haldia plant. With continued demand for batteries manufactured by EIL, demand for lead alloys from CML also remains healthy.

Conservative capital structure and healthy debt coverage indicators – CML's financial risk profile remains healthy as reflected by its conservative capital structure and healthy debt coverage indicators. Healthy accruals from business and no external debt resulted in an interest cover of 19.6 times and DSCR of 14.3 times as on March 31, 2020. Going forward, there would be some increase in leverage due to the debt contracted to part fund the capex, leading to a moderation in debt coverage indicators. However, on an absolute basis, the debt metrics would continue to remain healthy.

Credit challenges

Limited value addition – The business of manufacturing lead alloys has limited scope of value addition, which results in low business margins. Consequently, CML's EBITDA margin has remained low historically, as indicated by an OPM of ~1.2% in FY2019 and ~1.1% in FY2020.

Intense competition exerts pricing pressure – The domestic lead alloy manufacturing industry is intensely competitive with the presence of many unorganised players. Intense competition exerts pricing pressure on the company.

Exposure to commodity price cycles and limited pricing flexibility – CML's raw material cost is partially exposed to the cyclicality in lead prices as a part of the company's lead comes from primary sources. Prices of primary lead are linked to international lead prices as well as the exchange rates of the INR against the USD. This exposes CML to commodity price fluctuation risks. With a limited pricing power, the company has low flexibility in passing on the price hike to the customer.

Liquidity position: Adequate

CML's overall liquidity position remains **adequate,** having favourable payment terms with its customer, EIL. Such working capital support results in low working capital intensity of business along with low inventory levels. ICRA notes that CML has unutilised working capital lines from banks and has also received timely equity infusions from EIL to fund its capex requirements, further supporting its liquidity position.

Rating sensitivities

Positive triggers – A substantial improvement in its scale of operations and profitability while keeping its capital structure and debt coverage indicators strong, could result in a rating upgrade.

Negative triggers – Any deterioration in the operational and/or managerial linkages with EIL or a sharp increase in debt leading to weakening of the capital structure and debt coverage indicators on a sustained basis could result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent Company: Exide Industries Limited
Consolidation/Standalone	Standalone financials have been considered.

About the company

Chloride Metals Limited (CML) manufactures lead alloys from lead sourced through primary as well as secondary routes. The company is a 100% subsidiary of EIL, and its entire lead alloy sales are made to the parent company for manufacturing batteries.

In FY2020, the company reported a net profit of Rs. 10.8 crore on an operating income of Rs. 2,022.2 crore compared to a net profit of Rs. 12.3 crore on an operating income of Rs. 2,079.7 crore in the previous year.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	2079.7	2022.2
PAT (Rs. crore)	12.3	10.8
OPBDIT/OI (%)	1.2%	1.1%
PAT/OI (%)	0.6%	0.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.2	1.7
Total Debt/OPBDIT (times)	1.7	0.0
Interest Coverage (times)	15.1	19.6

Source: Company data

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					6-Oct-2020	14-Aug-2019	25-Apr-2018	
1	Cash Credit	Long Term	115.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
2	Non-fund based limits	Short Term	300.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	115.0	[ICRA]AA(Stable)
NA	Non fund based limits	NA	NA	-	300.0	[ICRA]A1+

Source: Chloride Metals Limited

Corrigendum

The press release dated October 6, 2020 has been revised. The relationship contact person’s details have been corrected/updated. (Changed from Ms. Vinita Baid to Mr L Shivakumar).

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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