May 12, 2021

Lloyd Insulations (India) Limited: Ratings reaffirmed; outlook revised to Stable; rated amount reduced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Working Capital Facilities	75.00	60.00	[ICRA]BBB- reaffirmed, outlook revised to Stable from Negative
Non-fund Based Working Capital Facilities	570.00	459.22	[ICRA]A3 reaffirmed,
Long-term Unallocated Limits	35.00	35.00	[ICRA]BBB- reaffirmed, outlook revised to Stable from Negative
Total	**680.00**	**554.22**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in rating outlook to Stable from Negative factors in the improvement in the liquidity position of Lloyd Insulations (India) Limited (LIIL), aided by healthy order execution post Q2 FY2021 (after easing of Covid-19 induced lockdown restrictions) and the reasonable orderbook position (Rs. 974 crore as on December 31, 2020) that ensures adequate revenue visibility. While total receivables outstanding as on December 31, 2020 (on standalone basis) were largely similar to that of March 31, 2020 levels because of increased pace of execution in Q3FY2021, there was a notable improvement in the quality of receivables, evident from the reduced levels of receivables outstanding for more than six months.

The rating reaffirmation continues to favourably factor in LIIL's established position in the insulation business, and its reputed and diversified client profile. The company also benefits from its integrated nature of operations, which offers a comprehensive range of products and services in the insulation segment.

The ratings, however, take note of the sharp decline in the company's revenues in FY2021, because of weak order execution in H1FY2021 amid lockdown restrictions in various state governments for containing the spread of Covid-19. While the company's pace of execution picked up from Q3FY2021, the recent second wave of infections could be a dampener as localised lockdowns are imposed. Thus, the severity of current wave and the extent of expansion in restrictions as well as duration may moderate the near-term revenue growth. The ratings continue to remain constrained by LIIL's modest return indicators with ROCE ranging between 7.5% and 11.0% during FY2015-FY2020, resulting from 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 fluctuations in raw material prices because of fixed-price contracts. ICRA also notes that LIIL provides funding support to PEB Steel Lloyd (India) Limited (PEBSL), a joint venture of LIIL (49.99% stake) and PEB Steel Asia Limited (50.01% stake), for purchase of raw materials. Additionally, it has also provided corporate guarantee to the bank limits of PEBSL. The financial profile of PEBSL is weak and any liability devolving on LIIL because of corporate guarantee provided to PEBSL, impacting its own liquidity, will be a key monitorable.
The stable outlook reflects ICRA's expectation that LIIL will maintain adequate order book and execution pace on the back of its long-standing experience in the thermal insulation industry and diversified client base. Although there exists uncertainty on the duration and severity of the Covid-19 second wave, the impact on LIIL's operations has been limited, at present, given its multilocational order execution and current adequate resource availability.

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-decade 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, fertilizer, construction, industrial customers such as steel, cement, automobiles, airports, food preservatives and logistics, providing diversification to the company. Hence, downturn in some industries would shield the revenues from adverse fluctuations.

Adequate order book position – As on December 31,2020, LIIL's unexecuted order book position stood at Rs 974 crore (1.08 times FY2020 revenues), offering adequate revenue visibility in the near term. While the proven operational track record, the established relationship with key clientele and the healthy bid conversion in the past provide comfort, any slowdown in the capex spend of major clientele or prolonged impact of the second wave of infections could adversely impact the new order accretion and execution.

Credit challenges

Sharp revenue decline in FY2021 due to lockdown restrictions amid Covid-19 – LIIL's order execution was impacted in H1 FY2021 by lockdown restrictions imposed by the Government because of the Covid-19 outbreak. There was limited business activity in Q1FY2021. While the lock-down restrictions were eased in Q2FY2021, operations at most of the sites could not be started fully until mid-September 2020 due to shortage of labour. The same resulted in significantly lower revenues for LIIL at Rs 430.46 crore in 9MFY2021. The full year standalone revenue of LIIL is estimated at Rs 649 crore, which is a 28% decline over FY2020. While the revenues are expected to recover in FY2022 on the back of adequate order book, the uncertainty with respect to order execution amid the ongoing second wave and restrictions remains.

Modest operating profit margin and return indicators; vulnerability of profitability to adverse movements in raw material prices – LIIL's operating profitability remained moderate between 4 and 6% during FY2015-FY2020. This resulted in subdued return indicators (the ROCE between 7 and 11% during this period), which are likely to remain subdued in FY2021 with muted execution and high working capital requirements because of long working capital cycle. 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 variations in raw material prices due to fixed-price orders.

High working capital intensity - The working capital intensity of LIIL remains high because of 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 realisation of receivables. LIIL's working capital requirements are partly met through mobilisation advances from customers and high credit period from suppliers. The liquidity position could get adversely impacted by any change in payment terms.

Support to weaker joint venture (PEBSL) in form of corporate guarantee 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 carrying out raw material purchases on the latter's behalf. In light of the possible weakening of demand for pre-engineered building products in the near term amidst the sharp increase in steel prices, the JV may continue to need financial support.

Liquidity position: Adequate

LIIL's liquidity position is **adequate**. The company's fund flow from operations is expected to remain positive over the next 2-3 fiscals 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 worth Rs 6.26 crore and liquid investments (lien free FDs) of Rs 56.17 crore as on February 28,2021. The presence of undrawn working capital limits of Rs 12.50 crore provides additional cushion to the liquidity.

Rating sensitivities

Positive factors – ICRA could upgrade LIIL's rating if the company demonstrates a sharp increase in scale, along with sustained improvement in profitability and return indicators. A notable improvement in receivable cycle, resulting in enhanced liquidity for the company, may also trigger a rating upgrade.

Negative factors – Negative pressure on the rating could emerge if any further decline in profitability and deterioration in working capital cycle lead to cash flow mismatches. Any significant funding support to PEBSL or any repayment liability devolving on LIIL because of corporate guarantee provided to PEBSL that impacts its own liquidity may also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
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

Incorporated in 1956, LIIL 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 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 located at Pitampur in the Dhar district of Madhya Pradesh and Cheyyar Taluk in the Thiruvannamalai district of Tamil Nadu.

Key financial indicators (Consolidated)

Particulars	FY2019 (Audited)	FY2020 (Audited)
Operating Income (Rs. crore)	917.49	947.20
PAT (Rs. crore)	5.32	19.16
OPBDIT/OI (%)	4.31%	5.59%
PAT/OI (%)	0.58%	2.02%
Total Outside Liabilities/Tangible Net Worth (times)	1.22	1.17
Total Debt/OPBDIT (times)	2.33	1.67
Interest Coverage (times)	1.89	2.56

Source: Company, ICRA Research; All ratios as per ICRA calculations; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

SN	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					May 12,2021	May 21,2020	Feb 14,2020	Feb 11,2019
1	Fund-based - Working Capital Facilities	Long-term	60.00		[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)
2	Non-fund Based-Working Capital Facilities	Short-term	459.22		[ICRA]A3	[ICRA]A3	[ICRA]A2	[ICRA]A2
3	Unallocated Limits	Long term	35.00		[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based Working Capital Facilities	Simple
Non-fund Based Working Capital Facilities	Very simple
Long-term Unallocated Limits	Simple

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 analyzing 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, is 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	Fund-based - Working Capital Facilities	-	-	-	60.00	[ICRA]BBB- (Stable)
NA	Non-fund Based-Working Capital Facilities	-	-	-	459.22	[ICRA]A3
NA	Unallocated Limits	-	-	-	35.00	[ICRA]BBB- (Stable)

Source: *Company; NA: Not Applicable*

Annexure-2: List of entities considered for consolidated analysis

Company Name	LIIL's ownership	Consolidation Approach
Isolloyd Engineering Technologies Limited (IETL)	51.00%	Full consolidation
PEB Steel Lloyd (India) Limited (PEBS)	49.99%	Equity method
Lloyd Insulations International FZE, Nigeria	100.00%	Full consolidation

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