

Lords Chloro Alkali Limited ^{Revised}

March 06, 2019

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]BBB(Stable); Assigned
Cash Credit	20.00	[ICRA]BBB(Stable); Assigned
Term Loan I	14.21	[ICRA]BBB(Stable); Assigned
Term Loan II	4.88	[ICRA]BBB(Stable); Assigned
Unallocated	0.91	[ICRA]BBB(Stable); Assigned
Total	40.00	

Rationale:

The assigned rating takes into account experienced and professional management of the company with rich experience in the chlor-alkali industry. The ratings also factor in healthy financial profile of the company reflected by healthy margins, moderate return indicators and conservative capital structure. ICRA notes that the promoters have infused significant amount of unsecured loans to fund the business requirements which are interest free and long term in nature. The ratings also take into account locational advantage owing to proximity to end user coupled with few players present in caustic soda manufacturers in Northern India, which has helped the company in maintaining business relationship with reputed customers. Besides, ICRA also takes note of the company's regular upgradation and advancement of machineries to improve its cost structure.

The rating is constrained by susceptibility of its profitability to adverse movement in power cost in absence of captive power plant. Further the rating is also constrained by locational disadvantage regarding sourcing of salt, which leads to high raw material cost. ICRA also factors in the vulnerability of profitability to the inherent cyclicality in the chlor-alkali industry.

Going forward, ability of the company to improve its scale of operations and profitability margins while managing working capital efficiently and maintaining healthy capital structure would be the key rating sensitivities.

Outlook: Stable

ICRA believes that LCAL will continue to benefit from its established track record in the chloro-alkali business. The outlook may be revised to Positive if the company is able to demonstrate sustainable growth in revenues while maintaining healthy profitability levels. Conversely, the outlook may be revised to Negative if any significant reversal in the industry dynamics weakens its profitability, or higher-than anticipated capital expenditure or deterioration in the working capital cycle weakens its liquidity position.

Key rating drivers:

Credit strengths

Experienced and professional management of the company with rich experience in the chemical industry - The Company benefits from the long experience of the promoters in chloro alkali range of chemicals. The key promoters are Mr. Madhav Dhir, Mr. Rakesh Ahuja and Mr. Yuvraj Ahuja, who have vast experience in the said industry. This apart, the company is managed by Mr. Ajay Virmani who has vast experience in this industry. The management has developed healthy relationship with its customers and suppliers over the period.

Healthy revenue growth and improved profitability with rise in caustic soda prices – LCAL recorded a healthy revenue growth in FY2018 (~37% YoY) and 9MFY2019, driven by sharp increase in caustic soda prices due to improved domestic demand and reduced global supplies. With better sales realisations, the operating profitability improved to 12.36% in FY2018 resulting in healthy cash accruals and strong liquidity position. Further the company has seen improvement in its realisations in the current fiscal as well.

Healthy capital structure and coverage indicators – The networth of the company has increased with healthy accruals, which has grown from Rs. 32 crore in FY15 to Rs. 52 crore in FY18. The gearing for LCAL has improved over the years. Further the unsecured loans are interest free and long term in nature and are mainly from promoter group. The debt protection metrics has remained healthy with interest coverage of at 8.90x, NCA/Debt at 18% and Debt/OPBDITA of 3.73 on March 31, 2018.

Credit challenges

Vulnerability to fluctuations in caustic soda prices and regulatory risk: Profitability of caustic manufacturing companies depends on the Electrochemical unit (ECU) prices. Cyclical downturns or adverse variability in demand-supply balance, may drag down realisations for caustic soda players.

Profitability determined by cost of power as production of Caustic soda is energy intensive in nature - Power is the major cost of production for the chlor-alkali industry, constituting 50-60% of the cost of production. Given that energy is the major cost of production, companies having captive power plants are at an advantage, however LCAL's unit is dependent on Jaipur Vidyut Vitran Nigam Limited (JVNL) and open market sources. Any upward revision in the power tariff by JVNL can have an adverse impact of LCAL's profitability.

Liquidity position

Liquidity profile of the company stood healthy during FY2018 represented by current ratio of 1.58x (FY2017: 1.45x). The cash and bank balance as on March 31, 2018 stood at Rs. 3.19 crores and further the working capital utilization has been negligible during the last 12 months period ended February 2019.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group Support	Not applicable
Consolidation /Standalone	The rating is based on the standalone financial profile of the company

About the Company:

Lords Chloro Alkali Limited was incorporated in March 1979 as a public limited company. The company is listed at the Bombay Stock Exchange and is engaged in the manufacture of chloro-alkali range of chemicals with a manufacturing plant located at Alwar (Rajasthan). The company supplies its products to most of the paper, soap, plastic industries based out of UP, Haryana, Rajasthan, Punjab & Delhi.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	121.16	165.95
PAT (Rs. crore)	3.59	8.47
OPBDIT/ OI (%)	10.67	12.36
RoCE (%)	10.31	14.28
Total Debt/ TNW (times)	1.52	1.46
Total Debt/ OPBDIT (times)	5.21	3.73
Interest Coverage (times)	6.29	8.90

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2018)		Date & Rating March 2019	Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		Date & Rating in FY18	Date & Rating in FY2017	Date & Rating in FY2016
1 Issuer Rating	Long Term	-	-	[ICRA]BBB(Stable)	-	-	-
2 Cash Credit	Long Term	20.00	-	[ICRA]BBB(Stable)			
3 Term Loan I	Long Term	14.21	14.21	[ICRA]BBB(Stable)			
4 Term Loan II	Long Term	4.88	4.88	[ICRA]BBB(Stable)			
5 Unallocated	Long Term	0.91	-	[ICRA]BBB(Stable)			

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	-	[ICRA]BBB(Stable)
NA	Cash Credit	-	-	-	20.00	[ICRA]BBB(Stable)
NA	Term Loan I	April 2017	-	December 2023	14.21	[ICRA]BBB(Stable)
NA	Term Loan II	December 2015	-	February 2021	4.88	[ICRA]BBB(Stable)
NA	Unallocated	-	-	-	0.91	[ICRA]BBB(Stable)

Source: LCAL

Annexure-2: Corrigendum

Rationale dated March 6, 2019 has been corrected with revision as detailed below:

There is a change (addition) in the credit strengths point no 1 on page no 1. The name 'Mr. Madhav Dhir' has been added as a key promoter.

There is a change (deletion) in the company profile on page no 2. A part of the first sentence 'by the Modi Group of Industries' has been deleted.

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