

November 05, 2020

Lords Chloro Alkali Limited: Rating reaffirmed; Issuer rating withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Working Capital	20.00	20.00	[ICRA]BBB (Stable); reaffirmed
Fund Based – Term Loan	13.00	13.00	[ICRA]BBB (Stable); reaffirmed
Issuer Rating	-	-	[ICRA]BBB (Stable); Reaffirmed and withdrawn
Total	33.00	33.00	

*Instrument details are provided in Annexure-1

Rationale

The rating action takes into account the decrease in Lords Chloro Alkali Limited's (LCAL) operating income (OI) in FY2020 owing to a steep decline in the prices of caustic soda and deterioration in its operating profit margin. The demand weakened in FY2020 due to low economic activity and the novel coronavirus (Covid-19) pandemic in Q4 FY2020. The demand is likely to remain weak during the major part of FY2021 because of the weak demand amid the continuing Covid-19 crisis. However, the debt protection metrics are likely to remain comfortable in FY2021.

The rating continues to factor in the extensive experience of LCAL's management in the chlor-alkali industry. The rating also factors in the healthy financial profile of the company, as reflected by comfortable debt and interest coverage indicators and low gearing. Further, the rating takes into account LCAL's location-specific advantage owing to proximity to the end-user industry. This apart, there are only a few players involved in caustic soda manufacturing in northern India, which has helped the company in maintaining business relationships with reputed customers. ICRA also takes note of LCAL's regular upgradation and advancement of machines to improve its cost structure. The track record of fund infusion by promoters as unsecured loans for the business requirements in the past, as and when required, is another credit strength.

The rating continues to be constrained by the susceptibility of its profitability to adverse movements in power cost in the absence of a captive power plant. The price of caustic soda, a commodity product, is prone to volatility on account of varying demand from the end-user industry. Further, the rating is constrained by locational disadvantage regarding sourcing of salt, which leads to high raw material cost. ICRA also factors in the vulnerability of the company's profitability to the inherent cyclical nature in the chlor-alkali industry.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that LCAL will continue to benefit from the extensive experience of its promoters and its established track record in the chlor-alkali industry.

Key rating drivers and their description

Credit strengths

Experienced and professional management with vast experience in chemical industry - LCAL benefits from the extensive experience of its promoters in chloro-alkali 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 is also experienced in chloro-alkali chemicals. The management has well-established relationships with customers and suppliers.

Improving demand of caustic soda and its co-product post Covid-19 pandemic - Caustic soda price declined substantially in FY2020 and Q1 FY2021 due to weak demand and Covid-19 pandemic. However, as indicated by the management, there has been some improvement in the demand of caustic soda. The demand and price of its co-product, chlorine, has also increased significantly owing to increased demand, which would support its overall revenues and profitability in FY2021.

Healthy capital structure and coverage indicators - LCAL's gearing was low at 0.71 times in FY2020, an improvement from 0.91 times in FY2019 due to increased net worth. The debt protection metrics remained comfortable with interest coverage at 7.13 times, NCA/debt at 29% and total debt/OPBDITA at 2.82 times on March 31, 2020. However, these ratios were weak compared to FY2019 due to a decline in profitability.

Credit challenges

Decline in revenues and profitability in FY2020 - LCAL's revenues and profitability declined in FY2020 due to a decrease in caustic soda price in the domestic market. The prices reduced in the domestic market due to low manufacturing activity amid economic slowdown and the Covid-19 pandemic in Q4 FY2020.

Vulnerability to fluctuations in caustic soda prices; regulatory risks - The profitability of caustic soda manufacturing companies depends on 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 accounts for the major cost of production for the chlor-alkali industry, constituting more than 60% of the production cost. Given that energy is the major cost of production, the companies with captive power plants are usually at an advantage. However, LCAL's unit is dependent on Jaipur Vidyut Vitran Nigam Limited (JVVNL) and open market sources. Hence, any upward revision in the power tariff by JVVNL can adversely impact LCAL's profitability.

Liquidity: Stretched

LCAL's liquidity profile is **stretched** on account of low cushion the working capital limit and pressures on cash flow generation in FY2021.

Rating sensitivities

Positive triggers - A rating upgrade would be driven by the increase in caustic soda realisation, leading to an improvement in profitability margins while sustaining the sales volume and improving the liquidity position.

Negative triggers - Any further decline in profitability metrics of the company as well as deterioration in its working capital cycle, thereby diminishing its liquidity, would put downward pressure on the company's ratings. In terms of specific credit metrics, RoCE lower than 13% on a sustained basis, would be a downward trigger for the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry Policy on Withdrawal of Credit Ratings
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 (LCAL) was incorporated in March 1979 as a public limited company. The company is listed on the Bombay Stock Exchange and is involved in the manufacture of chloro-alkali range of chemicals with a manufacturing plant at Alwar (Rajasthan). The company supplies its products to most of the paper, soap, plastic industries based out of Uttar Pradesh, Haryana, Rajasthan, Punjab and Delhi.

Key financial indicators (Audited)

	FY2019	FY2020
Operating Income (Rs. crore)	251.14	203.69
PAT (Rs. crore)	23.00	10.30
OPBDITA/ OI (%)	16.68%	10.57%
PAT (%)	9.16%	5.06%
Total Outside Liabilities/Tangible Net Worth (times)	1.20	1.00
Total Debt/ OPBDITA (times)	1.65	2.82
Interest Coverage (times)	11.68	7.13

Source: Company data

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2021)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating November 5, 2020	Date & Rating in FY2020 September 17, 2020	Date & Rating in FY2019 March 6, 2019	Date & Rating in FY2018 -
1 Cash Credit	Long Term	20.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB(Stable)	-
2 Term Loan	Long Term	13.00	13.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB(Stable)	-
3 Unallocated	Long Term	-	-	-	-	[ICRA]BBB(Stable)	-
4 Issuer Rating	Long Term	-	-	[ICRA]BBB (Stable) Withdrawn	[ICRA]BBB (Stable)*	[ICRA]BBB(Stable)	-

Source: Company data, *put on notice of withdrawal for 1 month

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	Cash Credit	-	-	-	20.00	[ICRA]BBB (Stable)
NA	Term Loan	April 2017	-	December 2023	13.00	[ICRA]BBB(Stable)
NA	Issuer Rating	-	-	-	-	[ICRA]BBB(Stable); Withdrawn

Source: LCAL

Annexure-2: List of entities considered for consolidation: Not applicable

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