

December 02, 2021

## Lords Chloro Alkali Limited: Rating reaffirmed; outlook revised to Stable

### 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 reaffirmed; Outlook Revised to Stable from Negative |
| Fund Based-Term Loan       | 13.00                             | 13.00                            | [ICRA]BBB reaffirmed; Outlook Revised to Stable from Negative |
| <b>Total</b>               | <b>33.00</b>                      | <b>33.00</b>                     |   |

\*Instrument details are provided in Annexure-1

### Rationale

The outlook revision factors in the expected improvement in the credit profile of Lords Chloro Alkali Limited (LCAL) in FY2022. With the steady rise in the demand and prices of caustic soda in YTD FY2022 amid stable power costs for the company, the cash generation in FY2022 is expected to witness significant improvement vis-à-vis last couple of years. While caustic soda prices had risen steadily in H1 FY2022, the price rise has been very sharp in Q3 FY2022 amid strong demand, rising energy costs and tightening supplies globally. Power costs comprise nearly 70% of the total input costs for manufacturing caustic soda and LCAL sources power from a grid connection provided by Jaipur Vidyut Vitran Nigam Limited (JVNL). The power costs for LCAL have remained stable since February 2020 as no tariff revision has been undertaken by JVNL since then. As a result, the profitability of LCAL is expected to improve substantially amid elevated caustic soda prices and stable power costs, resulting in healthy cash flow generation.

The rating continues to factor in the extensive experience of LCAL's management in the chlor-alkali industry. ICRA also factors in the comfortable financial profile of the company with low reliance on outside debt. Further, the ratings take into account LCAL's locational advantage owing to the proximity to the end-user industry. This apart, there are only 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, also provides support to the credit profile.

The rating however is constrained by the susceptibility of LCAL's profitability to the volatility in the caustic soda prices owing to the commoditised nature of the product and the cyclical nature associated with the chlor-alkali industry. The ratings also factor in the susceptibility of LCAL's profitability to adverse power tariff revisions in the absence of captive power plant. The ratings are also constrained by the small scale of operations of the company vis-à-vis other major industry players.

Currently LCAL is in the process of introducing two new products i.e. Sodium Hypochlorite and Stable Bleaching Powder (SBP) and the capex for setting up these capacities is underway. The capex to be incurred is around Rs. 15.0 crore to be funded by debt of Rs.10 crore and remaining through internal accruals. The introduction of the two new products will increase captive chlorine consumption as well as increase the revenue base for the company from FY2023. ICRA also notes that the company is also evaluating various capex programs related to increasing caustic soda capacity and setting up of a 25 MW solar power plant in Rajasthan to improve its cost structure. The capital outlay for these capex programs will be significant and will remain a key monitorable going forward.

## Key rating drivers and their description

### Credit strengths

**Experienced and professional management of the company-** LCAL benefits from the extensive experience of its promoters in chloro-alkali chemicals. The key promoter Mr. Madhav Dhir and his team has extensive 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.

**Healthy demand recovery for caustic soda post Covid-19 pandemic-** Post Covid-19 pandemic the demand for caustic soda had recovered to pre-covid levels by Q4 FY2021. While the demand witnessed a bit of headwind in Q1 FY2022 amid the second wave of Covid-19, thereafter the demand has witnessed significant uptick with falling infection rates and rising vaccination rate. With the economy currently nearly completely unlocked, the demand from key consuming sectors like paper/pulp industry and the textile segment has started recovering. With the rise in demand the caustic soda prices have also witnessed significant increase which will also aid LCAL's credit profile.

**Expected improvement in profitability in FY2022 amid rising caustic soda prices and stable power cost-** While caustic soda prices had risen steadily in H1 FY2022, the price rise has been very sharp in Q3 FY2022 amid strong demand, rising energy costs and tightening supplies globally. Power costs comprise of nearly 70% of the total input costs for manufacturing caustic soda and LCAL sources power from a grid connection provided by Jaipur Vidyut Vitran Nigam Limited (JVVNL). The power costs for LCAL have remained stable since February 2020 as no tariff revision has been undertaken by JVVNL since then. As a result, the profitability of LCAL is expected to improve substantially amid elevated caustic soda prices and stable power costs.

### Credit challenges

**Vulnerability of profitability to fluctuations in caustic soda and chlorine prices along with power cost which is the major input-** 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. 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). Hence, any upward revision in the power tariff by JVVNL can adversely impact LCAL's profitability.

**Small scale of operations vis-à-vis industry players-** LCAL currently has 220 MTPD of caustic soda manufacturing capacity and remains a significantly smaller player vis-a-vis other industry incumbent, which limits LCAL's ability to withstand cyclical downturns.

### Liquidity position: Adequate

The liquidity position of the company is expected to improve in the current fiscal driven by the easing of the working capital position, healthy cash generation expected from operations, manageable repayments and capex requirements. The working capital borrowings have come down with the easing of the working capital position and improvement in cash generation by end of H1 FY2022 providing a cushion of nearly Rs. 15 crore vis-à-vis sanctioned limits. The cash generation in FY2022 is expected to remain adequate to meet the term loan repayments and capex funding requirements comfortably.

### Rating sensitivities

**Positive factors** – The ratings may be upgraded in a scenario of sustained improvement in the cash generation leading to improvement in the credit profile and liquidity position of the company. Specific credit metrics that will lead to upgrade in the ratings is Total Debt /OPBDITA < 2.0x on a sustained basis

**Negative factors** – Any further pressure on liquidity position will be a trigger for rating downgrade. Additionally, any major capex leading to negative impact on the credit profile will be credit negative for the ratings. Total debt/OPBDITA more than 3.0x on sustained basis.

### Analytical approach

| Analytical Approach             | Comments  |
|---------------------------------|---|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology for Entities in the Chemical Industry</a> |
| Parent/Group Support            | Not Applicable  |
| Consolidation/Standalone        | For arriving 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. The company is listed on the BSE 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)

| LCAL Standalone                                      | FY2020 | FY2021 |
|--|--------|--------|
| Operating Income (Rs. crore)                         | 203.7  | 154.1  |
| PAT (Rs. crore)                                      | 10.3   | -2.0   |
| OPBDIT/OI (%)  | 10.9%  | 3.1%   |
| PAT/OI (%)   | 5.1%   | -1.3%  |
| Total Outside Liabilities/Tangible Net Worth (times) | 1.0    | 1.1    |
| Total Debt/OPBDIT (times)                            | 2.8    | 13.5   |
| Interest Coverage (times)                            | 7.3    | 1.2    |

*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

| Instrument | Current Rating (FY2022)    |                          |   |                  | Chronology of Rating History for the past 3 years |                      |                    |                         |                         |                    |
|------------|----------------------------|--------------------------|---|------------------|---|----------------------|--------------------|-------------------------|-------------------------|--------------------|
|            | Type                       | Amount Rated (Rs. crore) | Amount Outstanding as of March 31, 2021 (Rs. crore) | Date & Rating in | Date & Rating in FY2021                           |                      |                    | Date & Rating in FY2020 | Date & Rating in FY2019 |                    |
|            |                            |                          |   | Dec 2, 2021      | Feb 23, 2021                                      | Nov 5, 2020          | Sep 17, 2020       | -                       | Mar 6, 2019             |                    |
| 1          | Term Loans                 | Long-term                | 13.0  | 10.3             | [ICRA]BBB (Stable)                                | [ICRA]BBB (Negative) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable)      | -                       | [ICRA]BBB (Stable) |
| 2          | Fund based bank facilities | Long-term                | 20.0  | --               | [ICRA]BBB (Stable)                                | [ICRA]BBB (Negative) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable)      | -                       | [ICRA]BBB (Stable) |

## Complexity level of the rated instruments

| Instrument                            | Complexity Indicator |
|---------------------------------------|----------------------|
| Long-term Fund-based – Term Loan      | Simple               |
| Long-term– Fund Based Working Capital | 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](http://www.icra.in)

**Annexure-1: Instrument details**

| ISIN No/Banker Name | Instrument Name | Date of Issuance | Coupon Rate | Maturity   | Amount Rated (RS Crore) | Current Rating and Outlook |
|---------------------|-----------------|------------------|-------------|------------|-------------------------|----------------------------|
| -                   | Cash Credit     | -                | -           | -          | 20.00                   | [ICRA]BBB(Stable)          |
| -                   | Term Loan       | May 2019         | -           | March 2024 | 13.00                   | [ICRA]BBB(Stable)          |

Source: Company

**Annexure-2: List of entities considered for consolidated analysis-NA**

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