

February 23, 2021

## Lords Chloro Alkali Limited: Rating reaffirmed, outlook revised to Negative

### 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 (Negative); reaffirmed, outlook revised from Stable
Fund Based – Term Loan	13.00	13.00	[ICRA]BBB (Negative); reaffirmed, outlook revised from Stable
<b>Total</b>	<b>33.00</b>	<b>33.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

Lords Chloro Alkali Limited (LCAL) has published its Q3 FY2021 unaudited financial performance on Bombay Stock Exchange (BSE) on February 12, 2021. As a result of the Covid-19 pandemic, there has been a disruption of operations and weak demand from the key end-user industries, resulting in decline in revenues and profitability in 9M FY2021.

The outlook revision takes into account the year-on-year (YoY) decrease in Lords Chloro Alkali Limited's (LCAL) operating income (OI) and profitability in 9M FY2020 owing to a disruption of operations in Q1 FY2021 and weak demand from key industries, such as textiles and paper, during Q2 and Q3 FY2021. The final selling price of caustic soda is likely to remain subdued during the entire FY2021 due to the weak demand amid the pandemic. However, the debt protection metrics are likely to remain comfortable in the near to medium term due to low reliance on external debt. The rating continues to be constrained by the susceptibility of LCAL's 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 cyclicity in the chlor-alkali industry.

The ratings, nevertheless, continue 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, is another credit strength.

The Negative outlook on the [ICRA]BBB rating reflects ICRA's opinion that LCAL's operational profile will remain under pressure due to weak demand from the key end-user industries.

## 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. Rakesh Ahuja, Mr. Madhav Dhir and Mr. Yuvraj Ahuja, who have 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.

**Improving demand of caustic soda and its co-product post Covid-19 pandemic in Q4 FY2020** - Caustic soda price has declined substantially in FY2020 and 9M 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 in Q4 FY2021.

**Comfortable capital structure and coverage indicators** - LCAL's capital structure is comfortable due to the low reliance on external debt in 9M FY2021. Though the coverage indicators have declined in 9M FY2021 due to weak profitability, these have remained at a comfortable level.

### Credit challenges

**Decline in revenues and profitability in FY2020 and 9M FY2021** - LCAL's revenues and profitability declined in FY2020 and 9M FY2021 due to a lower caustic soda price in the domestic market. The prices have declined in the domestic market due to low manufacturing activity amid economic slowdown and the Covid-19 pandemic.

**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 position: Stretched

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

### Rating sensitivities

**Positive factors** - Given the long-term rating is on a Negative outlook, a near-term upgrade is unlikely. A ratings upgrade would be driven by increase in caustic soda realisation leading to the improvement in profitability margins while sustaining the sales volume coupled with improvement in liquidity position.

**Negative factors** - A 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 downwards trigger for the ratings.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Chemical Industry</a>
Parent/Group Support	Not applicable
Consolidation /Standalone	The ratings are based on the standalone 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/provisional)

LCAL Standalone	FY2019	FY2020	9M FY2021*
Operating Income (Rs. crore)	251.14	203.69	107.16
PAT (Rs. crore)	23.00	10.30	(2.54)
OPBDIT/OI (%)	16.68%	10.57%	4.27%
PAT/OI (%)	9.16%	5.06%	(2.40%)
Total Outside Liabilities/Tangible Net Worth (times)	1.20x	1.00x	
Total Debt/OPBDIT (times)	1.65 x	2.82x	
Interest Coverage (times)	11.68x	7.13x	1.45x

Source: Company; ICRA research, \*provisional financial statement published on BSE.

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 (FY2021)			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 FY2021	Date & Rating in FY2019
					Feb 23, 2021	Nov 5, 2020	Sep 17, 2020	March 6, 2019
1	Cash Credit	Long-term	20.00	-	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Term Loan	Long-term	13.00	13.00	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Unallocated	Long-term	-	-	-	-	-	[ICRA]BBB (Stable)
4	Issuer Rating	Long-term	-	-	-	[ICRA]BBB (Stable)#	[ICRA]BBB (Stable)*	[ICRA]BBB (Stable)

Source: Company, \*put on notice of withdrawal for 1 month, # rating withdrawn

### 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 [click here](#)

*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 (Negative)
NA	Term Loans	April 2017	-	December 2023	13.00	[ICRA]BBB (Negative)

Source: Company

*Annexure-2: List of entities considered for consolidated analysis: Not applicable*

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