July 11, 2023

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 Positive
Fund based – Term loan	14.25	14.25	[ICRA]BBB+; reaffirmed; outlook revised to Stable from Positive
Unallocated	7.65	7.65	[ICRA]BBB+; reaffirmed; outlook revised to Stable from Positive
Total	**41.90**	**41.90**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook to Stable factors in an expected moderation in the credit profile of Lords Chloro Alkali Limited (LCAL) with the decline in caustic soda realisations. LCAL's revenue and profits improved significantly in FY2023 as caustic soda realisations rose on account of higher demand and lower global supply amid elevated energy prices. However, the scenario started reversing in Q4 FY2023. The prices of caustic soda started moderating on account of a decline in global energy prices coupled with global recessionary fears, resumption of global capacities and an overcapacity situation in India. ICRA expects the prices to remain under pressure in the near term, constraining the revenue generation and profitability of caustic soda players in general and LCAL in particular. This is likely to result in a moderation of the credit metrics in FY2024, although some improvement is expected thereafter.

Power costs, which comprise nearly 60-70% of the total input costs for manufacturing caustic soda, have remained largely stable for LCAL as Jaipur Vidyut Vitaran Nigam Limited (JVVNL) - from which LCAL sources power - has not revised the tariff since a long time. As a result, the profitability of LCAL improved substantially amid elevated caustic soda prices and stable power costs, resulting in a healthy cash flow generation and substantial improvement in debt protection metrics in FY2023. These metrics are likely to moderate, going forward, as caustic soda realisations come under pressure.

The rating continues to factor in the extensive experience of LCAL's management in the chlor-alkali industry. Further, the rating takes into account LCAL's locational advantage owing to its proximity to the end-user industry and its long-standing relationships with reputed customers.

The rating, however, is constrained by the susceptibility of LCAL's profitability to the volatility in caustic soda prices owing to the commoditised nature of the product and the cyclicality associated with the chlor-alkali industry, as has been the case currently. Moreover, recessionary fears in Western countries can also have an impact on demand. The rating also factors in the susceptibility of LCAL's profitability to adverse power tariff revisions in the absence of a captive power plant. The ratings are also constrained by the small scale of operations of the company vis-à-vis other major industry players.

LCAL is in the process of expanding its caustic soda capacity by around 90 tonnes per day. It has other capex plans towards downstream chlorine utilisation and improvement of the power mix. This capex is likely to be debt-funded which will increase the reliance on debt and impact the debt coverage metrics, especially in FY2024, although the same are likely to improve thereafter and remain comfortable.

The revision in the outlook to Stable reflects ICRA's expectation that caustic soda prices will remain subdued, leading to a moderation in profitability in FY2024. Nevertheless, the credit profile of the company is expected to remain comfortable.

Key rating drivers and their description

Credit strengths

Experienced and professional management - LCAL benefits from the extensive experience of its promoters in chloro-alkali chemicals. The key promoter - Mr. Madhav Dhir - and his team have a long track record in the 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.

Strong performance in FY2023 translating into healthy coverage metrics, though these are likely to moderate, going forward – LCAL's coverage metrics improved significantly in FY2023, driven by higher caustic soda realisations primarily due to higher demand and lower supply globally, amid elevated energy prices. Due to the geopolitical situation, energy prices had increased significantly in Europe, which had made it unviable to produce caustic soda in that region, leading to the shutting down of some capacities. However, caustic soda realisations started falling from Q4 FY2023 as energy prices declined significantly, resulting in some capacities coming back onstream, and also because of global recessionary fears. This is expected to result in a significant moderation in LCAL's credit profile in the near term as the electro chemical unit's (ECU) realisations are trending very close to the OPBDITA breakeven levels for LCAL. The credit profile is expected to get better, going forward, with a steady improvement in the realisations.

Locational advantage of plant for disposal of chlorine and availability of raw material and key inputs – Chlorine remains one of the major by-products of the caustic manufacturing process and is a hazardous chemical. At present, 200 TPD of caustic manufacturing releases around 180 tons of chlorine daily, which is sold outside. At times, it is sold at negative realisations, indicating that LCAL has to bear the freight expenses on top of some discounts. The company is setting up chlorine downstream projects to use some of this chlorine in-house, such as producing sodium hypo, chlorinated paraffin wax (CPW) and bleaching powder. The company is proposing to set up a 40-TPD capacity for CPW, which will consume around 40 TPD of chlorine. Post this, another 90-TPD caustic facility is also expected which will add around 70-80 TPD of chlorine. While currently chlorine realisation is negative, the company does not expect any issues in handling chlorine, going forward.

Credit challenges

Vulnerability of profitability to fluctuations in caustic soda and chlorine prices along with power cost - The profitability of caustic soda manufacturing companies depends on the ECU realisations. Cyclical downturns or adverse variability in the demand–supply balance may drag down the realisations of caustic soda players. Power accounts for a major cost of production for the chlor-alkali industry, constituting 60-70% of the production cost. As energy forms a major cost of production, the companies with captive power plants are usually at an advantage. However, LCAL's unit is dependent on 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 (which is expected to increase by 90 MTPD by July 2024) and remains a significantly smaller player visa-vis other industry incumbents, which limits LCAL's ability to withstand cyclical downturns.

Environmental and Social Risks

Chlorine is a by-product in the caustic soda manufacturing process and its disposal remains a key concern for the industry. LCAL, being present in the chemical industry, is exposed to the risk of tightening regulations on environment and safety, which can have a potential bearing on the cost structure or lead to moderate capital outlay for mitigation and treatment. As per the disclosure made by LCAL in its annual report for FY2022, LCAL has been compliant with the environmental regulations. Further, the company is making efforts to consume chlorine by venturing into downstream products like chlorinated paraffin wax, bleaching powder, etc.

Liquidity position: Adequate

The liquidity position of the company is expected to remain adequate amid likelihood of lower cash generation as the realisations come under pressure in FY2024 and the high capex planned. However, the company has cushion in the form of available healthy cash balances of more than Rs. 60 crore as on March 31, 2023 and unutilised fund-based limits.

Rating sensitivities

Positive factors – The rating may be upgraded in case of a sustained uptick in revenue and profit generation, leading to an improvement in the credit profile and liquidity position.

Negative factors – The rating may be downgraded in case of a material decline in profit generation and deterioration in the liquidity position. Further, any major debt-funded capex negatively impacting the credit profile of the company, or the total debt/OPBDITA exceeding 2.3x on a sustained basis can result in a rating revision.

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	For arriving at the ratings, ICRA has considered the standalone financials of LCAL.

About the company

Lords Chloro Alkali Limited was incorporated in March 1979 as a public limited company by the Modi Group of Industries. The company's shares are listed on the Bombay Stock Exchange and it is engaged in the manufacture of the chloro-alkali range of chemicals. The manufacturing plant is at Alwar (Rajasthan). The company supplies majority of its products to the paper, soap and plastic industries based out of UP, Haryana, Rajasthan, Punjab and Delhi.

Lords Chloro Alkali Limited (LCAL) was incorporated as Modi Alkalies and Chemicals Limited (MACL) in 1979. It commenced production from its 190-tonnes-per-day (TPD) mercury-based chlor-alkali plant at Alwar in 1983. The Modi Group headed MACL during the 1980s and 1990s. During the late 1990s, the company's financial position became very weak on account of the inexperience of the promoters in the chlor-alkali business and the high interest burden on the loans taken for the capacity added in 1997. The promoters then filed reference with BIFR, based on which the company was declared sick in January 2002. The company was taken over by the current promoters, viz. Mr. Alok Dhir and Mr. Ashok Kumar, in March 2005. The new promoters filed a rehabilitation scheme in BIFR, which was sanctioned in November 2006 and the company got deregistered from the BIFR in March 2010. The management decided to revamp and get the old machineries changed during 2011 to 2014. The commercial production again started in January 2015.

Key financial indicators (audited)

	FY2022	FY2023*
Operating income	240.1	295.0
PAT	32.3	53.2
OPBDIT/OI	23.4%	28.4%
PAT/OI	13.4%	18.0%
Total outside liabilities/Tangible net worth (times)	0.7	34.8
Total debt/OPBDIT (times)	0.7	0.3
Interest coverage (times)	11.8	34.8

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional*

Status of non-cooperation with previous CRA

CRA	Status	Date of Release
Brickwork	BWR BB (Stable)/ BWRA4; continues to be in ISSUER NOT COOPERATING category; downgraded From BWR BB+ (Stable)/ BWRA4+	February 17, 2023

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021		
					Jul 11, 2023	Oct 18, 2022	Dec 24, 2021	Dec 02, 2021	Feb 23, 2021	Nov 05, 2020	Sept 17, 2020
1	Fund-based – working capital	Long term	20.00	--	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Fund-based – Term loan	Long term	14.25	11.45	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Unallocated	Long term	7.65	--	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	-	-	-	-	-
4	Issuer ratings	Long term	-	--	-	-	-	-	-	[ICRA]BBB (Stable) Withdrawn	[ICRA]BBB (Stable)*

**put on notice of withdrawal for 1 month*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund-based – Working capital	Simple
Long term – Fund-based – Term loan	Simple
Long term – Unallocated	Not Applicable

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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	20.00	[ICRA]BBB+ (Stable)
NA	Fund based – Term loan	May 2019	NA	FY2023-FY2028	14.25	[ICRA]BBB+ (Stable)
NA	Unallocated	-	-	-	7.65	[ICRA]BBB+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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