May 17, 2022

Chloride Metals Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	49.0	124.0	[ICRA]AA(Stable) reaffirmed/assigned
Fund based – Working capital limits	100.0	100.0	[ICRA]AA(Stable) reaffirmed
Non-fund based – Working capital limits	600.0	600.0	[ICRA]A1+ reaffirmed
Total	**749.0**	**824.0**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation considers Chloride Metals Limited's (CML) strong operational, managerial and financial linkages with Exide Industries Limited (EIL, rated at [ICRA]AAA/Stable, [ICRA]A1+), which holds a 100% equity stake in CML. In FY2022, CML's revenues increased by ~57% to Rs. 2,907 crore from Rs. 1,874 crore in FY2021, driven by higher volumes and better realisations. ICRA notes that CML's Haldia factory has commenced operations in FY2022, leading to an increase in volumes. In the current year, with ramp-up of operation at the Haldia plant, the revenues and profits are expected to further improve. The company's entire sales are made to EIL, thus alleviating demand risks. At present, it accounts for ~33% of EIL's lead alloys requirement.

While reaffirming the ratings, ICRA also notes CML's Rs. 150-crore capital expenditure plans to set up a new factory at Supa in Maharashtra, which will further increase CML's share of business with EIL, thus further strengthening the operational linkages. The plant is expected to be operational by the end of FY2023. In FY2021 and FY2022, there has been an addition of term debt to fund the project capex, which is expected to further increase in FY2023. Nonetheless, even after contraction of debt, the capital structure is expected to remain comfortable with a gearing of less than 0.5 times. However, coverage indicators have witnessed some moderation in FY2022 and will continue to remain subdued in the near term. Nonetheless, the cash accruals will be enough to meet its debt servicing obligations comfortably. Further, strong parentage of EIL provides considerable financial flexibility.

The ratings, however, are constrained by the limited value addition in the company's manufacturing process, which results in low operating margins, as indicated by an OPM of ~1.5% in FY2022. The margins are further impacted due to its exposure to regulatory risks (as lead alloy manufacturing is a highly polluting process), commodity price fluctuation risks and competition from organised as well as unorganised smelting units.

The Stable outlook reflects ICRA's expectation that CML's cash flows would remain comfortable relative to its debt service obligations. The company would continue to benefit for being a 100% subsidiary of EIL, which accounts for the entire sales of the company, along with EIL's dominant position in the domestic battery market.

Key rating drivers and their description

Credit strengths

Strong operational, managerial and financial linkages with EIL – CML is a strategically important subsidiary of EIL and receives strong operational, managerial and financial support from its parent. EIL's battery manufacturing process requires lead alloys, a part of which is procured from CML. Procurement of alloys from its 100% subsidiary allows EIL to have control over the quality of the important raw materials and maintain technical superiority to an extent. Commissioning of the Haldia factory and the proposed capex to set up a factory in Maharashtra would further increase CML's share of business with EIL, thus strengthening operational linkages. In addition, both the companies have common management. ICRA notes that EIL has provided financial support for CML's capex requirements in the past and is expected to infuse equity as a part of the promoter contribution for the Supa plant.

Low demand risks – CML's lead alloys have low demand risk as 100% of the company's products are sold to EIL. As on date, ~33% of EIL's overall lead alloy requirement is supplied by CML, which is expected to increase to ~50% in the next 1-2 years with the stabilisation of the Haldia plant and commencement of the Supa plant. With continued demand for batteries manufactured by EIL, demand for lead alloys from CML also remains healthy.

Increase in scale of operations – CML's scale of operations increased with the commencement of the Haldia plant in FY2022. CML's operating income grew by ~57% in FY2022 to ~Rs. 2,907 crore from Rs. 1,854 crore in FY2021. This also led to a sharp increase in profits with a rise in OPBITDA by ~71% to Rs. 44.1 crore from Rs. 25.8 crore in FY2021. Going forward, with stabilisation of the Haldia plant and commencement of the Supa plant, CML's scale is further expected to increase, which would result in an increase in absolute revenues and profits.

Credit challenges

Moderation in debt coverage indicators – With addition of debt, debt coverage indicators moderated in FY2022 and are expected to remain so in the next 1-2 years. ICRA notes that the term loans were/will be primarily used to fund the Haldia and Supa projects. The initial period repayment requirement will be high for the next 2-3 years. In addition, the cost of factoring arrangement along with interest on term loans will result in high financial expenses in the next 2-3 years. Nonetheless, the cash accruals will be enough to meet its debt servicing obligations comfortably. Further, strong parentage of EIL provides considerable financial flexibility.

Limited value addition – The business of manufacturing lead alloys has limited scope of value addition, which results in low business margins. Consequently, CML's EBITDA margin has remained low historically, as indicated by an OPM of ~1.4% in FY2021 and ~1.5% in FY2022.

Exposure to regulatory risks and intense competition – The domestic lead alloy manufacturing industry is intensely competitive with the presence of many unorganised players. Intense competition exerts pricing pressure on the company. Further, CML is exposed to regulatory risks as lead alloy manufacturing is a highly polluting process.

Exposure to commodity price cycles and limited pricing flexibility – CML's raw material cost is partially exposed to the cyclicality in lead prices as a part of the company's lead comes from primary sources. Prices of primary lead are linked to international lead prices as well as the exchange rates of the INR against the USD. This exposes CML to commodity price fluctuation risks. With a limited pricing power, the company has low flexibility in passing on the price hike to the customer.

Liquidity position: Adequate

CML's overall liquidity position remains **adequate.** While ICRA notes that the company has substantial debt repayment obligations in the near term, cash accruals from the business will be enough to meet its debt obligations comfortably. Further, CML has unutilised working capital lines from banks and has also received timely equity infusion from EIL to fund its capex requirements, further supporting its liquidity position. Moreover, strong parentage of EIL provides considerable financial flexibility.

Rating sensitivities

Positive Factors – A substantial improvement in the profitability along with a strong capital structure and debt coverage indicators, could result in a rating upgrade.

Negative Factors – Any deterioration in the credit profile of EIL and/or a deterioration in the operational/managerial linkages with EIL could put pressure on the ratings. Also, lower profitability or a stretch in working capital cycle putting significant pressure on the liquidity position will be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent/Group Support	Parent Company: Exide Industries Limited The rating assigned to CML factors in the high likelihood of its parent, EIL (rated [ICRA]AAA(Stable)/[ICRA]A1+), extending financial support to it given its strategic importance to the parent. There also exists a consistent track record of EIL having extended timely financial support to CML in the past, whenever a need has arisen.
Consolidation/Standalone	Standalone financials have been considered.

About the company

Chloride Metals Limited (CML) manufactures lead alloys from lead sourced through primary as well as secondary routes. The company is a 100% subsidiary of EIL, and its entire lead alloy sales are made to the parent company for manufacturing batteries.

In FY2022, the company reported a net profit of Rs. 14.8 crore on an operating income of Rs. 2,906.8 crore compared to a net profit of Rs. 14.0 crore on an operating income of Rs. 1,854.7 crore in the previous year.

Key financial indicators (audited)

CML	FY2021	FY2022
Operating Income (Rs. crore)	1854.7	2906.8
PAT (Rs. crore)	14.0	14.8
OPBDIT/OI (%)	1.4%	1.5%
PAT/OI (%)	0.8%	0.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.2	2.8
Total Debt/OPBDIT (times)	2.3	2.6
Interest Coverage (times)	7.5	3.3

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 (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)		Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					May 17, 2022	Sep 16, 2021	Jan 07, 2021	Oct 6, 2020	Aug 14, 2019
1	Term Loan	LT	124.0	64.3	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)		
2	Fund Based – Working capital limits	LT	100.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Non fund based – Working capital limits	ST	600.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based - Term Loan	Simple
Fund Based – Working capital limits	Simple
Non fund based – Working capital limits	Very 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

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	FY2021/FY2022	6.0%/ 6.1%	FY2026/FY2028	124.0	[ICRA]AA(Stable)
NA	Fund Based – Working capital limits	-	-	-	100.0	[ICRA]AA(Stable)
NA	Non fund based – Working capital limits	-	-	-	600.0	[ICRA]A1+

Source: *Company*

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

Annexure-2: List of entities considered for consolidated analysis

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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