July 31, 2023

Chloride Metals Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	100.0	100.0	[ICRA]AA(Stable) reaffirmed
Long-term Fund-based – Term Loans	124.0	124.0	[ICRA]AA(Stable) reaffirmed
Short -term Non-fund based – Working capital limits	600.0	600.0	[ICRA]A1+ reaffirmed
Total	**824.0**	**824.0**	

**Instrument details are provided in Annexure-I*

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 FY2023, CML's revenues increased by ~35% to Rs. 3,919 crore from Rs. 2,907 crore in FY2022, driven by higher volumes. ICRA notes that CML's Haldia factory commenced operations in FY2022 and stabilised in FY2023, leading to an increase in volumes. In the current year, CML's new plant at Supa, Maharashtra is expected to start operations, which would additionally support volumes and further strengthen operational linkages with EIL. The company's entire sales are made to EIL, thus alleviating demand risks. At present, it accounts for 45-50% of EIL's lead alloys requirement, which is expected to increase substantially in the near term. In addition, CML has engaged in various operational efficiency initiatives, primarily in raw material procurement, which once implemented, will result in significant cost savings, leading to an improvement in operating margins. ICRA notes that in the last two fiscals, the capital structure and debt coverage indicators have witnessed substantial moderation on account of higher debt contracted to fund the project capital expenditure at Haldia and Supa and high finance costs due to factoring services availed. The debt coverage metrics are likely to remain subdued in the near term, though expected operational efficiency initiatives are likely to support profitability and debt protection metrics to an extent. In addition, an equity infusion of Rs. 50 crore is expected from the parent entity to alleviate the near-term liquidity issues. Further, the strong parentage of EIL provides considerable financial flexibility. Also, the parent remains committed to provide support as and when required. 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 1-1.5% in the last 5 years. 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 will be supported by higher volumes and continued demand from EIL as well as expected equity infusion by the parent entity. The company would continue to benefit from 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 (45-50% of EIL's requirement) 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 in FY2022 and Supa plant in FY2024 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 (Haldia and Supa) in the past and is expected to infuse equity to the tune of ~Rs. 50 crore in FY2024, subject to Board approval.

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, 45-50% of EIL's overall lead alloy requirement is supplied by CML, which is expected to increase in the near term with the stabilisation of the Haldia plant and commencement of the Supa plant. With strong demand for batteries manufactured by EIL, demand for lead alloys supplied by CML also remains healthy.

Increase in scale of operations – CML's scale of operations increased with stabilisation of the Haldia plant in FY2023. CML's operating income grew by ~35% in FY2023 to ~Rs. 3,919 crore from Rs. 2,907 crore in FY2022. Going forward, with the commencement of the Supa plant, CML's scale is further expected to increase. Moreover, various operational efficacy initiatives are likely to result in substantial savings, leading to better profit margins, going forward.

Credit challenges

Moderation in debt coverage indicators – With addition of term loans and high finance costs, debt coverage indicators moderated in FY2022 and FY2023 and are expected to remain subdued in the current fiscal. ICRA notes that the term loans were primarily used to fund the Haldia and Supa projects. In addition, the cost of factoring arrangement along with interest on term loans will result in high financial expenses in the near term. Nonetheless, the cash accruals are likely to improve, aided by higher scale and significant cost savings initiatives expected by the company in the near-to-medium term and will be enough to meet its debt servicing obligations adequately. Further, EIL's commitment to support CML, as and when required, provides 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 1-1.4% in the last 5 years.

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 flow from operations is expected to be adequate to meet its debt obligations in the near term. Further, an equity infusion of Rs. 50 crore is expected in the current fiscal to alleviate the liquidity pressure in the near term. Also, EIL remains committed to providing support, as and when required.

Rating sensitivities

Positive factor – A substantial improvement in profitability along with a strong capital structure, debt coverage indicators, and healthy liquidity position could result in a long-term rating upgrade.

Negative factor – Lower profitability or a stretch in the working capital cycle putting significant pressure on the liquidity position will be a negative trigger. Also, 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.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach– Implicit Support from Parent or Group
Parent/Group support	Parent Company: Exide Industries Limited The ratings 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. It has three plants at present in Malur, Karnataka, Markal, Maharashtra and Haldia, West Bengal. A new plant in Supa, Maharashtra is expected to start operations in the current year.

Key financial indicators (audited)

CML Standalone	FY2022	FY2023
Operating income	2906.8	3918.8
PAT	14.8	-4.3
OPBDIT/OI	1.5%	1.2%
PAT/OI	0.5%	-0.1%
Total outside liabilities/Tangible net worth (times)	2.8	2.4
Total debt/OPBDIT (times)	3.3	3.1
Interest coverage (times)	3.3	1.5

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

Status of non-cooperation with previous CRA: Not applicable

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 of Mar 31, 2023 (Rs. crore)	Date & rating	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Jul 31, 2023	May 17, 2022	Sep 16, 2021	Jan 07, 2021	Oct 06, 2020
1	**Term loans**	Long term	124.0	111.95	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-
2	**Fund Based – Working capital Limits**	Long term	100.0	-	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	**Non fund based– Working capital limits**	Short term	600.0	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based - Term Loans	Simple

Fund based – Cash Credit	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 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	**Term Loan**	FY2021-2023	6.0%/7.5%	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 II: List of entities considered for consolidated analysis- Not applicable

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