September 30, 2024

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
Long Term-Fund Based-Cash Credit	100.00	25.00	[ICRA]AA(Stable) reaffirmed
Long Term-Fund Based-Term Loan	154.00	94.40	[ICRA]AA(Stable) reaffirmed
Short Term-Non-Fund Based-Others	600.00	1,430.00	[ICRA]A1+ reaffirmed/assigned for enhanced amount
Long-term/Short-term-Unallocated	0.00	104.60	[ICRA]AA(Stable)/[ICRA]A1+ assigned for enhanced amount
Total	**854.00**	**1,654.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action for the bank facilities of Chloride Metals Limited's (CML) considers ICRA's expectation that the company's credit profile will remain stable, supported by its strategic importance to Exide Industries Limited (EIL, rated [ICRA]AAA (Stable)/[ICRA]A1+). EIL's battery manufacturing process requires lead alloys, a part of which (45-50% of EIL's requirement) is procured from CML. CML, in turn, derives its entire sales from EIL. In addition, both the companies have common management and directors. ICRA notes that EIL has provided financial support for CML's requirements in the past, including equity infusion of Rs. 120 crore and unsecured loans of Rs. 100 crore in FY2024. ICRA expects EIL to provide timely and adequate financial support to CML, as and when required, going forward as well. The ratings also positively factor in CML's healthy revenue growth in the last few years, with a CAGR of 25% from FY2020-FY2024, and a YoY growth of 27.2% to Rs. 4,983.1 crore in FY2024. With healthy demand for batteries manufactured by EIL, demand for lead alloys supplied by CML is also likely to remain healthy.

The ratings are, however, constrained by the company's moderate coverage metrics and low accruals, given its thin margins on the back of limited scope of value addition. Consequently, CML's operating profit margin (OPM) has remained low historically, at 1.0-1.4% during FY2020-FY2023. The margins for FY2024 were impacted further by sub-optimal capacity utilisation in the recently commenced Supa plant and one-time expenses incurred for cost-optimisation, and it dropped to 0.3% in FY2024. While it improved to 0.8% in 5M FY2025, it still remains below historic levels. The company is undertaking various cost optimisation measures such as bring in procurement and energy efficiencies among others. Further, increase in capacity utilisation of the Supa plant and better operating leverage is expected to support margin improvement going forward. CML's debt metrics are moderate due to debt-funded capacity enhancements undertaken since FY2022 and the inherently low margins in the business. The debt metrics are expected to improve going forward, with improvement in scale, margins/accruals and absence of significant debt-funded capex plans over the medium term. Akin to other industry players, the company is bound by strict pollution control norms for handling lead. Although any deviation in the same could result in reputational risks and other penalties for the company, historical absence of pollution-related issues provides comfort to a large extent.

The 'Stable' outlook on the long-term rating reflects ICRA's expectation that the company's credit profile will remain supported by its strategic importance to EIL, healthy revenue growth prospects and effort to improve margins and accruals, amidst no significant debt-funded capex plans over the medium term.

Key rating drivers and their description

Credit strengths

Strong parentage - 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. Stabilisation of the new Supa plant which has been operational since August 2023 is expected further increase CML's share of business with EIL, thus strengthening operational linkages. In addition, both the companies have common management and directors. ICRA notes that EIL has provided financial support for CML's requirements in the past, including equity infusion of Rs. 120 crore and unsecured loans of Rs. 100 crore in FY2024. ICRA expects EIL to provide timely and adequate financial support to CML, as and when required, going forward as well.

Healthy revenue growth prospects with entire supplies being to EIL – CML's lead alloys are sold to entirely to EIL, thus alleviating demand risks to a large extent. As on date, 45-50% of EIL's overall lead alloy requirement is supplied by CML, which is expected to increase going forward. With healthy demand for batteries manufactured by EIL, demand for lead alloys supplied by CML also remains healthy. CML's sales has witnessed a strong CAGR of 25% from FY2020-FY2024, while for FY2024 the revenues increased by 27.2% YoY to Rs. 4,983.1 crore.

Credit challenges

Thin margins and moderate debt metrics – The business of manufacturing lead alloys has limited scope of value addition, which results in low business margins. Consequently, CML's operating profit margin (OPM) has remained low historically, at 1.0-1.4% during FY2020-FY2023. The margins for FY2024 were impacted further by sub-optimal capacity utilisation in the recently commenced Supa plant and one-time expenses incurred for cost-optimisation, and it dropped to 0.3% in FY2024. While it improved to 0.8% in 5M FY2025, it still remains below historic levels. The company is undertaking various cost optimisation measures such as bring in procurement and energy efficiencies among others. Further, increase in capacity utilisation of the Supa plant and better operating leverage is expected to support margin improvement going forward. CML's debt metrics are moderate due to debt-funded capacity enhancements undertaken since FY2022 and the inherently low margins in the business. It is expected to improve going forward, with improvement in scale, margins/accruals and absence of significant debt-funded capex plans over the medium term.

Exposed to regulatory risks and fluctuations in commodity prices – Akin to other industry players, the company is bound by strict pollution control norms for handling lead. Although any deviation in the same could result in reputational risks and other penalties for the company, historical absence of pollution-related issues provides comfort to a large extent. CML's margins are susceptible to variations in lead prices. However, the company's pass-through mechanism has historically capped the moderation in margins from RM price increases. Also, CML would benefit from improved operating leverage and its cost-optimisation measures.

Liquidity position: Adequate

CML's liquidity position is adequate with expectation of improvement in cash accruals and moderate undrawn lines. The company had cash and bank balances of Rs. 10.1 crore as of June 30, 2024. Against these sources of cash, it has only maintenance capex, and debt repayment obligation of Rs. 19.5 crore in H2 FY2025, Rs. 29.8 crore in FY2026 and Rs. 22.0 crore in FY2027 respectively on existing bank loans. EIL remains committed to provide timely and adequate financial support to CML, as and when required, going forward.

Rating sensitivities

Positive factors – A substantial improvement in profitability, debt metrics and liquidity position could result in a long-term rating upgrade.

Negative factors – Significant and sustained weakening of earnings and liquidity position could be a negative trigger. Also, any deterioration in the credit profile of EIL and/or weakening of operational/managerial linkages with EIL could exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology]
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

About the company

Chloride Metals Limited (CML), a wholly owned subsidiary of Exide Industries Limited (EIL, rated [ICRA]AAA (Stable)/[ICRA]A1+), manufactures lead alloys. Its entire sales are derived from EIL, and CML caters to 45-50% of EIL's lead alloy requirements for manufacturing batteries. It has 3 plants at Malur (Karnataka), Haldia (West Bengal) and Supa (Maharashtra), with Supa being the latest plant that was commenced in Aug 2023. CML and EIL have common management and directors.

Key financial indicators (audited)

Standalone	FY2023	FY2024
Operating income	3,918.8	4,983.1
PAT	-4.3	-49.3
OPBDIT/OI	1.2%	0.3%
PAT/OI	-0.1%	-1.0%
Total outside liabilities/Tangible net worth (times)	2.4	3.4
Total debt/OPBDIT (times)	3.1	36.0
Interest coverage (times)	1.5	0.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Financial ratios are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount Rated (Rs Crore)	Sep 30, 2024	FY2024 Date	FY2024 Rating	FY2023 Date	FY2023 Rating	FY2022 Date	FY2022 Rating
	Current (FY2025)			Chronology of rating history for the past 3 years					
Fund based – Term Loans	Long Term	94.40	[ICRA]AA (Stable)	18-Aug-23	[ICRA]AA (Stable)	17-May-22	[ICRA]AA (Stable)	16-Sep-21	[ICRA]AA (Stable)
				31-Jul-23	[ICRA]AA (Stable)	-	-	-	-
Fund based – Cash Credit	Long Term	25.00	[ICRA]AA (Stable)	18-Aug-23	[ICRA]AA (Stable)	17-May-22	[ICRA]AA (Stable)	16-Sep-21	[ICRA]AA (Stable)
				31-Jul-23	[ICRA]AA (Stable)	-	-	-	-
Non-Fund Based-Others	Long Term	1430.00	[ICRA]A1+	18-Aug-23	[ICRA]A1+	17-May-22	[ICRA]A1+	16-Sep-21	[ICRA]AA (Stable)
				31-Jul-23	[ICRA]A1+	-	-	-	-
Unallocated Limits	Long Term/Short Term	104.60	[ICRA]AA (Stable)/ [ICRA]A1+	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Long-term fund-based – Term Loan	Simple
Short Term-Non-Fund Based-Others	Very Simple
Long-term/ Short -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	**Long Term – Fund Based – Cash Credit**	-	-	-	25.00	[ICRA]AA(Stable)
NA	**Long Term – Fund Based – Term Loans**	FY2021-2024	8.5-9.0%	FY2026/FY2028	94.40	[ICRA]AA(Stable)
NA	**Short term- Non fund based - Others**	-	-	-	1430.00	[ICRA]A1+
NA	**Unallocated Limits**	-	-	-	104.60	[ICRA]AA(Stable)/ [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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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.

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