

## Lona Industries Limited

December 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term / Short-term bank facilities	35.00	CARE BBB+; Stable / CARE A3+	Downgraded from CARE A-; Stable / CARE A2

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Downgrade in the rating assigned to bank facilities of Lona Industries Limited (LIL) considers weak performance with operating losses in FY24 and inventory loss. Profitability has been impacted by subdued demand, reduced off-take in the export market and an increase in raw material costs, which the company was not able to pass on. Though the demand is gradually improving, and the company's total operating income (TOI) is expected to improve in FY25, operating margin remains constrained given its exposure to raw material price volatility. The company continues to be exposed to customer concentration risk given that top customers continue to contribute material portion towards LIL's total sales.

Ratings continue to factor in rich experience of the promoters and long track record in the pigments and dyes industry, especially in the export market and LIL's long-standing relationship of over 20 years with a reputed clientele. Ratings continue to favourably factor in LIL's lowly leveraged position and adequate liquidity.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Improvement in revenue to above ₹350.00 crore and operating margin above 6%.
- Improvement in return on capital employed (ROCE) over 15% on a sustained basis.

#### Negative factors

- Decline in ROCE below 2%.
- Deterioration in total outside liabilities to total net worth (TOL/TN) above 1.3x.
- Deterioration in operating cycle to above 100 days.

### Analytical approach: Standalone

#### Outlook: Stable

The stable outlook reflects improving demand, LIL's longstanding relationship with its customers benefitting in repetitive orders and its lowly leveraged position.

### Detailed description of key rating drivers:

#### Key strengths

##### Experienced promoters and long track record of LIL in industry

LIL is headed by Sanjay Dhote, who has over two decades of experience in the pigment and dyes industry. The company has been in existence for over five decades and has had a strong relationship with customers over the years.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

**Long-standing relationship with a diversified clientele, despite moderate concentration risk**

LIL's existing clientele comprises major downstream colourant companies having a global footprint and operating in different colour segments such as ink, plastics, textiles, and colour pigments. Top 10 customers contributed ~68% of total revenue in H1FY25 (FY24: 70%; FY23: 68%), with ~40% of revenue contributed by the Japanese collaborator – Dainichiseika Color & Chemicals Mfg Co Ltd (Dainichiseika). This exposes the company to client concentration risk. LIL manufactures blue pigment for Dainichiseika (used in ink) per their requirement. However, the company has a long-standing relationship of 20 years with Dainichiseika, which provides stability in terms of securing sales volumes. Credit terms with Dainichiseika are of 30 days on an average which ensures timely collection.

**Comfortable capital structure**

The company continues to be lowly leverage with working capital facility forming major part of the total debt. Leverage is expected to remain comfortable in the near-to-medium term, given absence of debt led capex plan. However, the company's net worth has deteriorated in FY24 from ₹133.73 crore to ₹77.98 crore due to loss of ₹55 crore booked by the company. Due to deterioration in net worth, the company's overall gearing deteriorated to 0.31x as on March 31, 2024 (As on March 31, 2023: 0.15x); however, continues to remain comfortable.

**Key weaknesses****Deterioration in performance in FY24; Expected to gradually improve**

Demand for pigments gradually improved in the current year, however realisation has been lower. Extension of antidumping duty imposed by China is restricting growth. Despite this, the company is expected to achieve marginal growth in revenue in FY25. Though operating margin remains vulnerable to raw material price volatility, marginal correction is expected to benefit the company in booking positive earnings before interest, taxation, depreciation, and amortisation (EBITDA) in FY25. LIL has achieved a total revenue of ₹150.91 crore and operating margin of 3.18% in H1FY25.

The company continued its de-growth in revenue in FY24 by ~12% with total income from operations at ₹242.47 crore (FY23: ₹270.25 crore). Decline was observed in domestic and export market as, shrunk by 18% and 10% in revenue. Volume growth was marginal at ~1% in FY24; however, material volume growth is anticipated in FY25.

**Limited products offerings and commodity nature of product**

LIL has limited product offerings in the field of synthetic organic dyes and pigments. The company's product profile comprises 10 products, which include phthalocyanine pigments, dyes derived from phthalocyanine, quionacridone pigments and other allied products of phthalocyanine. LIL's products find application in plastic, paint, textile and ink industries catering to mass segments and there are no strong entry barriers to manufacture these products. However, R&D team of the company in collaboration with the Japanese collaborator is actively pursuing to introduce new products.

**Profitability vulnerable to adverse fluctuation in raw material prices and forex**

The company factors in purchase cost of raw material, while pricing finished goods. To protect against raw material price volatility, the company does not enter contracts with customers. The company generally decides on pricing on a quarterly basis for regular customers and on a spot basis for other customers. Though this helps the company to pass on raw material price volatility partially; however, abnormal increase in raw material prices may have to be partially absorbed by the company, which may affect its profitability margins. Aluminium Chloride, phthalic anhydride (PAN) and Urea are some of the principal raw materials sourced from domestic suppliers and imported. LIL's profitability is also exposed to risk of foreign exchange fluctuation. The company is a net exporter and does not hedge its net exposure however, LIL is always net earner of foreign exchange. The company also avails Export Credit Guarantee Corporation of India (ECGC) cover for its export receivables.

**Liquidity: Adequate**

The company's liquidity is adequate with average utilisation of working capital limits at 53% for 12-months ended September 30, 2024. Moreover, there are no debt repayment obligations as there is no term loan in the books. However, the LIL's cash and bank position remains modest at ~₹8 crore as on March 31, 2024. Cash flow from operations stood at ₹20.48 crore in FY24 (FY23: ₹12.79 crore) The company's gross cash accrual is expected to improve in coming years backed by gradual recovery in the business.

## Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

## About the company and industry

### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Chemicals & Petrochemicals	Commodity Chemicals

Incorporated 1962, LIL is a closely held public limited company. Presently, the company's operations are managed by the second-generation entrepreneur, S.R. Dhote (son of Late Dr. R.K. Dhote). LIL is engaged in manufacturing pigments, which find wide application in plastic, paint, textile, and ink industries. The manufacturing facility at Ladivali and Mahad, Maharashtra with a total installed capacity of 8,302 MT of pigments. The company's product profile comprises 10 products, which include Copper Phthalocyanine pigments namely Lonocyanine Alpha Blue, Blue, Beta blue, Green among others; Dyes derived from Phthalocyanines namely Lonogen Brilliant Blue GSL & Lonogen Brilliant Blue IBN 140; Phthalocyanine allied products namely Aluminium Phthalocyanine, Cobalt Phthalocyanine, Copper Phthalocyanine; Quinacridone pigments namely Lonacridone pink & Lonacridone Red Br.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)	H1FY25 (UA)
Total operating income	270.26	242.47	150.91
PBILDT	4.58	-28.72	4.80
PAT	-3.25	-55.84	NA
Overall gearing (times)	0.15	0.31	NA
Interest coverage (times)	2.02	-11.35	3.27

A: Audited; P: Provisional; UA: Unaudited; NA: Not available; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC		-	-	-	35.00	CARE BBB+; Stable / CARE A3+

**Annexure-2: Rating history for last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	35.00	CARE BBB+; Stable / CARE A3+	-	1)CARE A-; Stable / CARE A2 (07-Sep-23)	1)CARE A; Stable / CARE A2+ (16-Jan-23) 2)CARE A; Stable / CARE A2+ (04-Jan-23)	1)CARE A; Stable / CARE A2+ (30-Mar-22)

LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple

**Annexure-5: Lender details**To view lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

## Contact us

<b>Media Contact</b>  Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a>	<b>Analytical Contacts</b>  Krunal Pankajkumar Modi Director <b>CARE Ratings Limited</b> Phone: 079-40265614 E-mail: <a href="mailto:krunal.modi@careedge.in">krunal.modi@careedge.in</a>
<b>Relationship Contact</b>  Ankur Sachdeva Senior Director <b>CARE Ratings Limited</b> Phone: 912267543444 E-mail: <a href="mailto:Ankur.sachdeva@careedge.in">Ankur.sachdeva@careedge.in</a>	Arunava Paul Associate Director <b>CARE Ratings Limited</b> Phone: 912267543667 E-mail: <a href="mailto:arunava.paul@careedge.in">arunava.paul@careedge.in</a>  Ragini Surve Lead Analyst <b>CARE Ratings Limited</b> E-mail: <a href="mailto:Ragini.Surve@careedge.in">Ragini.Surve@careedge.in</a>

### About us:

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