

**Lalitha Chem Industries Pvt. Ltd**  
**September 29, 2021**

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Term loan	4.94	<b>CARE BBB-; Stable</b> <b>(Triple B Minus; Outlook: Stable)</b>	Assigned
Long term bank facilities-fund based (CC)	20.00	<b>CARE BBB-; Stable</b> <b>(Triple B Minus; Outlook: Stable)</b>	Assigned
Short term bank facilities-Non fund based (LC/BG)	83.06	<b>CARE A3</b> <b>(A Three)</b>	Assigned
<b>Total Facilities</b>	<b>108.00</b> <b>(Hundred and eight crore)</b>		

*Details of facilities in Annexure-1;*

**Detailed Rationale & Key Rating Drivers**

CARE has taken a combined view on Lalitha Chem Industries Pvt Ltd, ALA Chemicals Pvt Ltd and Subray Catal Chem Pvt Ltd, together referred to as Lalitha Group, for arriving at the ratings as the entities are under a common management, have similar line of business and financial linkages.

The ratings assigned to the bank facilities of Lalitha group derive strength from the established track record and experience of the promoters in the chemical industry, established relationship with the customers and adequate liquidity profile.

The above rating strengths are, however, tempered by modest scale of operations of the group in a highly competitive industry leading to moderate profitability margins, exposure to volatility in raw material prices and foreign exchange fluctuation, high gearing levels due to working capital intensive nature of operations.

**Rating Sensitivities****Positive factors:**

- Increase in scale of operations above Rs.500 crore and PBILDT margins above 8% on sustained basis
- Improvement in operating cycle below 90 days on sustained basis

**Negative factors:**

- Decrease in sales below Rs. 200 crore and PBILDT margin below 5% on sustained basis
- Deterioration in operating cycle to more than 150 days on continuous basis.

**Detailed description of the key rating drivers****Key Rating Strengths*****Vast experience of the promoters coupled with long track record of operations***

Lalitha group of companies are promoted and managed by Hosmane family. Mr. Subray Hosmane oversees the overall operations of the group which include Marketing, Operations etc. Mr. Subray Hosmane is assisted by his wife Ms. Veena Hosmane, ex-banker, who manages the day to day finances and other general management activities of the group.

***Regular financial support from the promoters***

The promoters have always supported the group by infusing unsecured loans and preference share.

***Long term association with key customers***

Long association of the Lalitha group in the business has helped the group to establish healthy relationship with its customers resulting into consistent revenues for the group. Some of the key clientele for the company are Prince Pipes & Fittings Limited, Polycab Wires Ltd, Finolex Cables Ltd etc.

**Key Rating Weaknesses*****Modest scale of operations in highly competitive industry***

Despite in the business from more than four decades, the group continues to remain as modest player in the industry with combined manufacturing capacity of 29,300 MTPA and total operating income of Rs.264.34 crore for year ending March 31, 2021.

The group derives more than 90% of its revenues from sale of Stabilizer, Plasticizers and PVC/CPVC compounds. Owing to working capital crunch across end user industries on the backdrop of COVID-19 pandemic the company's scale of operations were impacted in FY20.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

The operations were also impacted due to logistical issues and high freight cost along with supply crunch worldwide as the company mainly depend on imports for its raw material requirement. During FY21, the company decided to focus on high margin products to manage working capital efficiently. The scale of operations grew by 16% in FY21 to Rs.264.34 crore (P.Y: Rs.227.76 crore) and PBILDT margin stood at 6.19% (P.Y. 5.82%).

#### **Working capital intensive nature of operations leading to moderate capital structure**

The group imports majority of its raw material requirements and hence have to maintain inventory of about 60 to 90 days. Moreover, due to high competition in the industry the group needs to extent credit of about 120-150 days. The company offers credit period up to 180 days to few creditworthy clients to command high margins. However, there were no instances of bad debt written off in past 3 years. On the other hand, the suppliers of the raw material are large sized multinationals from which the group has low bargaining power and the group gets LC backed credit period in the range of 30 to 90 days which results in high working capital requirement for the group. The group funds majority of its raw material requirements from non-fund based short term bank borrowings .

#### **Susceptibility to fluctuation in raw material prices and foreign exchange fluctuation**

The primary raw materials required for manufacturing of the group's products are Oxo-Alcohols such as N-Butanol and 2-Ethylexanol. Due to use of polypropylene, a crude derivative, as feedstock for production of oxo-alcohols its prices are volatile in nature. Since the group imports majority of its raw material requirements (60% for FY21) they are also exposed to foreign exchange fluctuation risk considering that the group does not have any formal hedging policy.

For the year ending March 31, 2020, the group had total foreign exchange loss of Rs.0.04 crore (P.Y: loss of Rs.2.50 crore).

#### **Liquidity: Adequate**

Liquidity is marked by adequate accruals against scheduled repayment obligations. The company also has liquid investments to the tune of Rs.51 crore as on August 31, 2021. Moreover, company's fund-based facilities average utilization stood at 10% for past 12 months ensuring additional liquidity cushion. The company relies mainly on non fund based limits for meeting raw material requirements. The company maintains fixed deposits for availing FD backed non fund based limits in case the limits are fully utilized.

#### **Analytical approach:**

CARE has taken a combined view on Lalitha Chem Industries Pvt Ltd, ALA Chemicals Pvt Ltd and Subray Catal Chem Pvt Ltd, together referred to as Lalitha Group, for arriving at the ratings as the entities are under a common management, have similar line of business and financial linkages.

#### **Applicable Criteria:**

[Criteria on rating Outlook and Credit Watch](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology – Manufacturing companies](#)

[Financial ratios - Non-financial Sector](#)

[Criteria for Short term Instruments](#)

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

[Rating Methodology-Consolidation](#)

#### **About the Lalitha Group**

Established in 1978 by Hosmane family, Lalitha Group is involved in manufacturing of organic and inorganic chemicals like PVC Plasticizers, PVC Stabilizers, CPVC Compounds, Calcium Zinc Stabilizers, PVC Tin Stabilizers, lubricants, metallic stearate and other fluids. The group has five manufacturing plants, two plants at Silvassa and one each in Tarapur, Thane and Ambarnath with a combined capacity of 29,300 MTPA of PVC Stabilisers and lubricants. The products manufactured by the group find its uses in the manufacturing of pipes and fitting industry. The group derives majority of its revenues (more than 95% for FY21) from domestic market.

Subray Catal Chem Pvt. Ltd (established in 2014) and ALA Chemicals Pvt. Ltd. (acquired by Lalitha Chem Industries Pvt. Ltd. in 2014), group companies, are also into manufacturing of plastic additives i.e. PVC Stabilisers and Plasticizers.

<b>Brief Combined Financials (Rs. crore)</b>	<b>FY19 (UA)</b>	<b>FY20 (UA)</b>	<b>FY21 (UA)</b>
Total operating income	379.46	227.76	264.34
PBILDT	21.64	13.26	16.37
PAT	9.08	5.71	7.96
Overall gearing (times)	1.91	1.28	1.11
Interest coverage (times)	2.33	2.64	3.32

CARE Calculated combined Financials; UA: Un-audited

Brief Standalone Financials (Rs. crore)	FY19 (A)	FY20 (A)	FY21 (Prov)
Total operating income	188.01	115.78	133.25
PBILDT	10.32	6.97	9.17
PAT	4.58	2.81	4.35
Overall gearing (times)	1.44	0.99	0.85
Interest coverage (times)	2.28	2.28	3.22

A: Audited

**Status of non-cooperation with previous CRA:** ACUITE BB+ ACUITE A4+ (Issuer not co-operating) as per PR dated March 31, 2021.

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

#### Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term		-	-	FY23	4.94	CARE BBB-; Stable
Fund-based - LT-Cash Credit		-	-	-	20.00	CARE BBB-; Stable
Non-fund-based-Short Term		-	-	-	83.06	CARE A3

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (05-Sep-18)2)CARE BBB-; Stable (06-Apr-18)
2	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (05-Sep-18)2)CARE A3 (06-Apr-18)
3	Term Loan-Long Term	LT	4.94	CARE BBB-; Stable				
4	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB-; Stable				
5	Non-fund-based-Short Term	ST	83.06	CARE A3				

\* Long Term / Short Term

#### Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

NA

**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based-Short Term	Simple
3	Term Loan-Long Term	Simple

**Annexure 5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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