Digboi Carbon Private Limited (Revised)

January 06, 2023

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	10.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**10.00 (₹ Ten Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the Bank Facilities of Digboi Carbon Private Limited (DCPL) continue to derive strength from its experienced promoters with long track record of operations, group being one of the largest players in the domestic CPC segment, strategic location of the units of the group, reputed clientele base, comfortable capital structure with healthy net worth base and adequate liquidity position. The ratings are, however, constrained by the risk relating to availability and price volatility of Raw Petroleum Coke (RPC), moderate capacity utilization, working capital intensive nature of operations, and substantial dependence on the fortunes of the aluminium and graphite industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustenance of PBILDT margin above 10% and GCA over Rs.50 crore.
- Reduction in overall gearing ratio below 0.1x with improved surplus liquid funds.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in PBILDT margin below 5% on sustained basis
- Deterioration in overall gearing ratio above 1.00x as sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter with long track record of operations

Mr Subhash Maniyar, (son of Late Mr Om Prakash Maniyar) having more than two decades of experience in the manufacturing and trading of CPC is involved in managing the overall affairs of the group. He is well supported by Mr S. K. Hazra, CEO, who has more than three decades of experience in the banking and manufacturing sector. One of the largest players in the domestic CPC segment, the Maniyar group has a total installed capacity of 3,85,000 MTPA for CPC and 76,500 MTPA for CEP.

Strategic location of the units of the group

The group's manufacturing facilities for CPC are located in proximity to its raw material source i.e. oil refineries and port. Three units are located in Assam, two in Bihar and one unit in Odisha. The proximity enables it to take advantage of the lower transportation cost. Furthermore, as the group has majority of the capacity in Assam, it gets preference in allocation of raw material from the Assam refineries which are considered to be of superior quality. Also having units across various locations in Eastern India provides an edge in terms of supplying from the nearest unit and saving on logistic cost. Further, raw materials are mainly imported into the port-based plants.

Comfortable capital structure with healthy net worth base

On a combined basis, the capital structure of the group remained comfortable as on March 31, 2022, with stable overall gearing ratio of 0.57x as on March 31, 2022. The slight moderation year on year was on account of higher short-term borrowing which was to fund larger scale of operations.

On a standalone basis, the capital structure continues to remain comfortable in FY22. The overall gearing ratio improved stood at 0.06 time as on FY22 against 0.05 time as on FY21.

Reputed clientele base

The group has reputed customers from diversified industry profile. The diversified customer profile of the group ensures regular inflow of orders. Further, the group sells majorly to reputed players having strong credit risk profile which on one hand reduces

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

the counterparty credit risk and also exposes the group to client concentration risk on the other. Further as on August 31, 2022, the group has an order book position of Rs.287.28 crore.

Improvement in the financial performance of the company in FY22 and H1FY23
On a combined basis, the total operating income of the group increased by around 2 times to Rs.863.03 crore in FY22 from Rs. 404.38 crore in FY21. The increase in turnover is on account of substantial increase in sales realisation. Furthermore, group's gross margin improved substantially from 24% in FY21 to 31% in FY22. Higher gross margin along with better absorption of fixed overheads led to improvement in PBILDT margin from 4.27% in FY21 to 14.53% in FY22. Accordingly, the group achieved PAT of Rs.83.15 crore in FY22 vis-`a-vis Rs.3.86 crore in FY21. The group earned cash profit of Rs.92.23 crore as against debt repayment obligation of Rs.6.51 crore in FY22. In H1FY23, the combined sales of the group stood at Rs.958.93 crore (including inter-group sales). Further the company has reported a PBT of Rs.71.33 crore.
On standalone basis, the total operating income grew by 1.48x y-o-y from Rs.20.82 crore in FY21 to Rs.51.68 crore in FY22 mainly due to increase in the demand along with higher realization in CPC. The company achieved PAT of Rs.4.75 crore in FY22 as against Rs.0.48 crore in FY21. The company earned GCA of Rs.5.54 crore as against nil debt repayment obligation in FY22.

Key Rating Weaknesses
Moderate capacity utilization on combined basis in FY22
The capacity utilization of the group remained moderate with slight improvement from 35% in FY21 to 40% in FY22. The capacity utilisation however, witnessed a decrease in Guwahati Carbon Limited (GCL) from 26% in FY21 to 16% in FY22 due to limited supply of raw materials while it remained relatively at same levels for Brahmaputra Carbon Limited (BCL), and DCPL with slight improvement in Neo Carbon Private Limited (NCPL). However, the capacity utilisation in Paradip Calciner Limited (PCL) increased substantially from 51.37% in FY21 to 79.44% in FY22 on account of increase in demand for high sulphur content coke, the requirement of which can only be met by facilities at PCL plant.

Risk relating to availability and price volatility of volatility of RPC and CPC
RPC is the major raw material for the production of CPC. The group sources RPC mainly from domestic market and a few portion from International market. The group has a locational advantage in Assam as 3 of its units are located in Assam (only place where the graphite grade RPC is available) and during the auction in Assam, earlier the entire quantity was first allocated to the units established within the state. It has changed its supply where 80% of the raw material is allocated to Assam and the rest 20% outside the state. The price of RPC, being a crude oil derivative, is dependent on crude oil prices, which are highly volatile. Over the last few years, the prices of raw materials have moved in tandem with that of the crude oil prices. The price of the finished goods depends upon the demand from aluminium industry and graphite industry. Thus, the operating margin of the company remains susceptible to any sharp movement in the RPC and CPC prices. Also, in the CPC industry, secure access to raw materials is a key competitive advantage.

Working capital intensive nature of operation
The group has to maintain adequate inventory so as to ensure continuous production. This results in high inventory days of around 136 days in FY22(201 days in FY21). The working capital cycle of the group improved from 211 days in FY21 to 152 days in FY22 due reduced inventory and slightly better receivables at 24 days viz a viz 32 days in FY22.

Substantial dependence on the fortunes of the aluminium and graphite industry
Two grades of CPC are majorly used – i) Anode grade CPC used mainly in aluminium industry and ii) Graphite grade CPC used majorly in Graphite industry and in small percentage in ferro alloy industry. Around 80% of the world's CPC production is used in the production of the Carbon Anodes in the Aluminium smelting process and hence production of the primary aluminium is one of the most important determinants of CPC demand and the growth of the CPC industry. However, aluminium industry being cyclical in nature depends heavily on the health of the world economy. Thus, any slowdown in production and demand of the Aluminium can adversely affect the financial profile of the company.

Exposure to risks associated with Government regulations related to pollution control norms
Since pet coke is considered a pollutant and has been debated over from time to time the operations of the company are exposed to regulatory risks. Any changes in the regulatory framework such as duties or quotas on the import of raw material and pollution norms might have a significant impact on the operating performance of the company.

Liquidity: Adequate
The group earned cash profit of Rs.92.23 crore as against bank debt repayment obligation of Rs.6.51 crore in FY22. The group has cash and bank balance of Rs.34.20 crore as on March 31, 2022, thereby providing liquidity comfort to the company. The

current ratio and quick ratio stood at 2.12x and 1.22x as on March 31, 2022, respectively. Further, the average working capital utilization on combined level for PCL, NCPL, DCPL and BCL stands at ~57% from last 12 months ended November 2022.

Analytical approach: Combined. For arriving at its ratings, CARE has combined the business and financial profiles of BCL, GCL, NCPL, DCPL and PCL (together referred to as the Maniyar group) as all the companies are in same line of business under common management and have significant operational and financial synergies.

Applicable criteria
Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company
Incorporated in December 2004 and having commenced the production from 2006, DCPL belongs to Maniyar group of Kolkata, promoted by Late Mr O P Maniyar. The company is engaged in the manufacturing of CPC with an installed capacity of 30,000 MTPA at Tinsukia, Assam. Maniyar group is one of the largest producers of CPC in India with combined installed capacity of 3,85,000 MTPA for CPC and 76,500 MTPA for CEP, under various group companies including BCL, GCL, DCPL, PCL and NCPL. The group takes the order of CPC from its customers as a whole and executes the same in any one of its companies based on the availability of raw material and logistic viability.

Brief Financials – standalone (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	20.82	51.69	24.92
PBILDT	1.02	6.21	NA
PAT	0.48	4.75	NA
Overall gearing (times)	0.05	0.06	NA
Interest coverage (times)	3.98	15.67	NA

A: Audited; UA: Unaudited; NA: Not Available; Ratios are classified as per CARE Ratings Standards

Brief Financials – combined (₹ crore)	March 31, 2021 (UA)	March 31, 2022 (UA)	H1FY23 (UA)
Total operating income	404.38	863.03	958.93*
PBILDT	17.25	125.39	NA
PAT	3.86	83.15	NA
Overall gearing (times)	0.51	0.57	NA
Interest coverage (times)	1.00	5.62	NA

UA: Unaudited; NA: Not Available; * including inter-group sales; Ratios are classified as per CARE Ratings Standards

Status of non-cooperation with previous CRA: Not Applicable

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

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

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 along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE BBB+; Stable

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (25-Feb-22)	1)CARE BBB+; Negative (03-Mar-21) 2)CARE BBB+; Negative (03-Apr-20)	1)CARE BBB+; Stable (04-Apr-19)

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities- Not Applicable

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

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

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About us:
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