

## Indcarb Activated Carbon Private Limited

October 03, 2023

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	23.50	CARE BB; Stable	Assigned
Short Term Bank Facilities	6.50	CARE A4	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Indcarb Activated Carbon Private Limited (Indcarb) are constrained by small and nascent stage of operations, weak capital structure, susceptibility of profitability margins to fluctuations in raw material prices, seasonality impact and foreign currency rate fluctuations.

However, the ratings derive comfort from the extensive experience of the promoters in the activated carbon industry, wide market presence in both export and domestic markets, and favourable demand prospects for coconut shell based activated carbon (CSAC).

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

#### Positive factors

- Improvement in scale of operations above Rs.100 Crore with PBILDT margin above 13%
- Improvement in overall gearing below 2.5x

#### Negative factors

- Any stretch in collection of receivables leading to tightening of liquidity position
- Any large debt funded capex leading to moderation in capital structure with overall gearing above 4x

### Analytical approach: Standalone

#### Outlook: Stable

The stable outlook reflects that the company's operations will continue to remain stable aided by experienced management and demand prospects for its products from various business segments.

### Detailed description of the key rating drivers:

#### Key weaknesses

##### Small and nascent stage of operations:

The company is involved in manufacturing of activated carbon produced from the coconut shells. The company has installed capacity of 4500 MTPA with 2 kilns and commercial production was started only from April 2021. The scale of operations remained small with operating income of Rs.76.82 crore in FY23 (Prov) (refers to the period April 01, 2022 to March 31, 2023) however grown at the y-o-y growth of 104.91% over FY22. Indcarb booked income of Rs.23.80 crore in 5mFY23 (refers to the period April 01, 2023 to August 31, 2023). The unit has 2 Kilns with capacity of 4500 MTPA together. The commercial production of first Kiln started in April 2021 while the other one started in September 2021.

##### Weak capital structure:

The capital structure of the company stood weak with overall gearing of 3.90 as on March 31, 2023 due to the debt funded capex towards setting up the machineries. The networth also stood low at Rs.7.23 crore as on March 31, 2023. The debt coverage indicators stood moderate with Total debt/ GCA of 3.34 as on March 31, 2023 albeit improved from 27.14 as on March 31, 2022.

##### Profitability margins exposed to volatility of raw material prices and forex fluctuations:

The company's operating profitability is vulnerable to fluctuations in raw material prices, such as shell charcoal, which account for a sizable share of total manufacturing costs. Sharp variations in raw material prices can have a long-term influence on the company's profitability. The harvest of coconut depends on the monsoons, making the supply of coconut shell-based charcoal seasonal. Any shortage of coconut shell supply will have a direct impact on production, and a rise in charcoal costs will have an

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

impact on margins. The supply of coconut shells often lags behind the production of coconuts by a year since coconut shells are the last in the queue of coconut use.

The company's exports are denominated in USD and Euro, the company is open to forex risk as there are no hedging mechanism in place as on date. Any adverse fluctuations in the exchange rates may have detrimental effects on the profitability of the company.

### Key strengths

#### Extensive experience of the promoters:

The promoter Mr. Gokul Thotikamath, the Chairman and Managing Director has over 25 years of experience in FMCG marketing and 4 years in business consulting. The directors, Mr. Joshy Joseph and Mr. Abdul Kahar have nearly three decades of experience in activated carbon industry. Mr. Prejit Kannapan, Director, has over 2 decades of experience in finance and new business ventures and takes care of the finance department of Indcarb. The extensive experience of the promoters in the relevant sectors enabled the company to establish a wide customer base.

#### Wide market presence in both export and domestic markets:

The shell-based charcoal finds its advantage across various industries such as water purification, air purification, food and beverage industry, Pharmaceuticals, Gold mining Industry etc. Around 50% of company's products cater to Gold mining industry. The company derives around 55% its income through exports to different countries like Burkina Faso, Tanzania and other African companies and also to Korea, US and Germany. The top 10 customers contributed to 80% of sales in FY23 however the same improved to 67% in 4mFY24 (refers to the period April 1 to July 31).

#### Favorable demand prospects for coconut shell based activated carbon:

During the last five years, exports of coconut and coconut products have increased at a compound annual growth rate of 7.2 percent but with large inter-year variations. In 2021-22, activated carbon was the highest foreign exchange earning product among all coconut products excluding coir and accounted for 64 percent of total exports of coconut products. The major importers of coconut from India are Vietnam, the UAE, Bangladesh, Malaysia, and USA. Overall, the Indian CSAC market is expected to continue to grow steadily in the next five years, driven by growing demand for water filtration, equipment for air purification and other industrial uses like gold purification, petrochemical uses etc.,

#### Liquidity: Adequate

The liquidity is adequate marked by accruals of Rs.8.45 crore in FY23 against repayment obligations of Rs.3.46 crore in FY24 and moderate cash balance of Rs.2.33 as on March 31, 2023. The operating cycle of the company remained comfortable at 62 days in FY23 (PY: 52 days). The company has working capital limits of Rs.6.5 crore and the average utilization stood low at around 20% for the past 12 months ended July 2023.

**Assumptions/Covenants:** Not Applicable

**Environment, social, and governance (ESG) risks:** Not Applicable

### Applicable criteria

[Policy on default recognition](#)

[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 and industry

#### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Specialty Chemicals

Indcarb Activated Carbon Private Limited (Indcarb) was established in 1990 in the name of Sleeves India Private Limited and is engaged in manufacturing and sale of coconut shell based activated carbon in both domestic and export markets, with installed

capacity of 4500 MTPA. Located in Palakkad, Kerala the company's day-to-day operations are managed by Mr. Gokul Thotikamath, the Chairman & Managing Director of the company.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (P)	5MFY24 (P)
Total operating income	37.02	76.82	23.80
PBILDT	2.68	10.85	NA
PAT	-5.55	3.28	NA
Overall gearing (times)	8.21	3.90	NA
Interest coverage (times)	1.50	4.37	NA

A: Audited; P: Provisional; NA: Not Available; Note: 'the above results are latest financial results available'

**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:** 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 along with Rating Outlook
Fund-based - LT-Term Loan		-	-	June 2029	23.50	CARE BB; Stable
Fund-based - ST-Working Capital Limits		-	-	-	6.50	CARE A4

#### 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 2023-2024	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
1	Fund-based - ST-Working Capital Limits	ST	6.50	CARE A4				
2	Fund-based - LT-Term Loan	LT	23.50	CARE BB; Stable				

LT-Long term; ST-Short term.

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

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

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-Working Capital Limits	Simple

**Annexure-5: Lender details**

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

**Note on the 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](mailto:care@careedge.in) for any clarifications.

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