Hi-Green Carbon Limited

March 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	10.52	CARE B+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Hi-Green Carbon Limited (HGCL) are constrained on account of history of delays in debt servicing along with stretched liquidity. The rating also takes into consideration project implementation and stabilization risk owing to on-going debt funded capex, geographical concentration risk and presence in a regulated rubber recycling industry.
However, the rating derives strength from experienced promoters having established track record of operations. The rating also factors in company's healthy operating performance during FY23 (Audited; period refers from April 01 to March 31) and H1FY24 (Unaudited; period refers from April 01 to September 30) along with comfortable capital structure and debt coverage metrics.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations with total operating income (TOI) of more than Rs.100 crore and sustaining operating margin above 25%.
- Clear track record of debt servicing of more than 1 year.

Negative factors

- Decline in scale of operations with TOI below Rs. 50 crore or decline in PBILDT margin below 15% on sustained basis.
- Any regulatory change having the potential to materially impact the company's performance.

Analytical approach: Standalone

Outlook: Stable

Stable Outlook reflects that the rated entity will be able to sustain its operational performance as exhibited by TOI and strong profitability margins. However, timely completion of on-going capacity expansion capex will be a key rating monitorable.

Detailed description of the key rating drivers:

Key weaknesses

History of delays in debt servicing

There were instances of overdrawing in working capital limits for 1-2 days on account of interest charged during April 2023 and December 2023 end. Further, there were instances of penal interest in Term loan statement which were charged during June-August 2023 as auto-debit mandate had been non-operative on account of delay in renewal of sanctioned facilities. However, auto-mandate facility had been operative since renewal of sanctioned facility in September 2023 and hence there is clear track record of repayments since then. Also, liquidity is improved owing to receipt of proceeds from IPO as well as better operational performance.

Project implementation and stabilization risk owing to on-going capex

HGCL is under-going a capacity expansion project at an estimated cost of Rs.40.41 crore. The proposed plant will be in Dhule, Maharashtra having installed capacity of recycling 100MT of waste tyres/day. The project is expected to commence operations from May/June 2024. The project cost is funded through issue of equity shares, internal accruals, and term loan from bank. Till February 2024, HGCL has incurred ~Rs.30 crore in the project. With 25% of costs yet to be incurred, there exist project implementation and stabilization risk.

Geographical concentration risk

HGCL is operating from its sole recycling plant located at Bhilwara, Rajasthan where ~80% of the domestic revenue of the company is concentrated. Furthermore, ~96% of the revenue came from the domestic market whereas balance 4% from exports. Hence, HGCL is exposed to geographical concentration risk. However, commencement of other manufacturing unit in Maharashtra which is expected to cater demands from Maharashtra and nearby states will reduce geographical concentration risk.

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

Presence in a regulated industry
As HGCL is engaged in waste tyre recycling process, the industry is regulated for the stringent pollution control norms from The Central Pollution Control Board (CPCB), State Pollution Control Board (SPCB) as well as Ministry of Environment, Forest and Climate Change (MoEFCC). The said boards have implemented various regulations and guidelines related to waste management and environmentally sound disposal. However, HGCL has been certified with Environmental Management Measures with ISO 14001:2015, Occupational Health & Safety Management standards with ISO 45001:2018, Quality Management Standards with ISO 9001:2015, Good Manufacturing Practice (GMP) and RoHS. HGCL's certifications, necessary approvals and licenses adheres to the said guidelines.

Key strengths

Experienced promoters having established track record of operations
Mr. Amitkumar Bhalodi, MD cum CFO, is a key promoter of HGCL, looks after commercial activities, sales, purchase, marketing & finance of the company. He is having more than 15 years of experience in this field. Mr. Shailesh Kumar Makadia, Chairman and promoter of HGCL is having almost 2 decades of experience in waste recycling process and looks after technical research and development of the company. Mr. Nirmalkumar Sutaria, WTD and promoter is having more than 11 Years of experience of Waste Recycling and Recovering Carbon Black. He manages factory operations and production department of the company. The promoters are also supported by a team of experienced and trained employees.

Healthy operating performance during FY23 and H1FY24
During FY23, TOI improved by ~53% y-o-y to Rs.77.96 crore from Rs.50.88 crore in FY22 on account of volume growth as well as improved sales realisation across its product mix. During H1FY24, TOI remained at Rs.33.42 crore. Volume growth and price realisation growth for recovered carbon black remained at 13% and 26% respectively whereas for fuel oil, it remained at 37% and 22% respectively. Profitability marked by PBILDT margin improved substantially to 25.7% in FY23 from 17.4% in FY22 due to higher efficiency in recycling process leading to better quality products. With finance cost and depreciation remained at similar levels with FY22, PAT margin improved to 15.8% in FY23 from 7.3% in FY22. Consequently, HGCL reported gross cash accruals of 18.20 crore in FY23.

Comfortable capital structure and debt coverage metrics
Capital structure remained comfortable as marked by overall gearing at 0.56x as on March 31, 2023, vis-à-vis 1.33x as on March 31, 2022. Sequential improvement in overall gearing is on account of higher tangible net worth due to accretion of profits to reserves as well as slight decline in total debt. Overall gearing further improved and remained at 0.17x as on September 30, 2023, mainly due to increase in net worth as a result of fresh issue of equity shares of Rs.44.93 crore. Debt coverage indicators remained strong as exhibited by comfortable interest coverage ratio of 16.01x during FY23 vis-à-vis 7.64x in FY22. Total debt to GCA remained at 0.75 years as on March 31, 2023, as against 2.25 years as on March 31, 2022. Strong debt coverage indicators are due to better operating results during FY23.

Liquidity: Stretched

Liquidity of HGCL remained stretched on account of higher utilisation of its working capital limits, low cash and bank balance as well as moderate operating cycle. Cash and bank balance remained low at Rs.0.09 crore as on March 31, 2023 vis-à-vis Rs.0.06 crore as on March 31, 2022. During the past twelve months ended January 2024, HGCL had utilised ~75-80% of its working capital limits. Operating cycle remained at 66 days during FY23 and FY22 due to higher inventory days. However, HGCL generated adequate GCA of Rs. Rs.18.20 crore in FY23 as against negligible gross loan repayment of Rs.0.69 crore during FY24. Cashflow from operations remained at Rs.9.61 crore for FY23 and Rs.5.95 crore in FY22 due to better operational performance during FY23.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Policy On Curing Period

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Carbon Black

HGCL was formally incorporated as Shantol Green Hydrocarbons (India) Private Limited during 2011 by Mr. Amitkumar Bhalodi, Mrs. Dakshaben Makadia and Mrs. Binaben Makadia. Subsequently, RNG Finlease Pvt. Ltd. (RNG) acquired control of HGCL during 2012-2017. Later, Mr. Amitkumar Bhalodi, Dr. Shaileshkumar Makadia, Mrs. Krupa Dethariya, Mrs. Radhika Bhalodi, Mrs. Shiryakumari Makadia, and Mr. Koosh Dethariya acquired combined 28.42% from RNG in 2022. Further, during September 2023, HGCL came up with Initial public offer to raise ~Rs. 52.8 crore and got its shares listed on NSE SME (NSE Emerge) platform.
HGCL is engaged in the business of waste tyres recycling. Main products of HGCL are Recovered Carbon Black (RCB), Steel Wires, Fuel Oil and Synthesis Gas which are produced from pyrolysis process on end-of-life tyres (ELTs). HGCL further processes synthesis gas to manufacture Sodium silicate (Raw glass). RCB has been used as a reinforcing agent in tyres, also acting as a pigmenting, UV stabilizing and conducive agent in products such as plastics, printing inks, coatings, etc. Fuel Oil also known as bio-oil used in industrial applications like boilers, furnaces, kilns, hot water generators, etc. Sodium silicate is used in soap detergent and in the manufacturing of silica gel. Company's production facility is located at Bhilwara, Rajasthan with an installed capacity of recycling of 100 MT waste tyres/day and 60 MT/day of sodium silicate production. Further, HGCL is establishing another plant at Maharashtra with capacity of 100 MT of waste tyres/day and expected to operationalise from May/June 2024.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	50.88	77.96	33.42
PBILDT	8.87	20.05	8.29
PAT	3.73	12.35	5.19
Overall gearing (times)	1.33	0.56	0.17
Interest coverage (times)	7.64	16.01	12.75

A: Audited UA: Unaudited; 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-Cash Credit		-	-	-	10.00	CARE B+; Stable
Fund-based - LT-Term Loan		-	-	28-06-2025	0.52	CARE B+; 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 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 - LT-Cash Credit	LT	10.00	CARE B+; Stable				
2	Fund-based - LT-Term Loan	LT	0.52	CARE B+; Stable				

*Long term/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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	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 for any clarifications.

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