Himadri Speciality Chemical Limited

March 31, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	-	-	Reaffirmed at CARE A+; Stable (Single A Plus; Outlook: Stable) and Withdrawn
Long-term / Short-term (LT/ ST) Bank Facilities	-	-	Revised to CARE A+; Stable / CARE A1 (Single A Plus ; Outlook: Stable / A One) from CARE A+; Stable / CARE A1+ (Single A Plus ; Outlook: Stable / A One Plus) and Withdrawn
Total Bank Facilities	-		
Commercial Paper (Carved out)*	-		Withdrawn
Total Short-term Instruments	-		

Details of instruments/facilities in Annexure-1
*carved out of the sanctioned working capital limits of the company

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd (CARE) has revised the rating assigned to the short-term bank facilities of Himadri Speciality Chemical Limited (HSCL) from CARE A1+ (A One Plus) to CARE A1 (A One) while reaffirming the long-term ratings at CARE A+; Stable (Single A Plus; Outlook: Stable) and has subsequently withdrawn the ratings with immediate effect. The above action has been taken at the request of HSCL and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

CARE has also withdrawn the rating assigned to the commercial paper program and proposed bank facilities of HSCL with immediate effect at the request of the company as the company has not availed the afore-mentioned commercial paper and proposed bank facilities and there is no amount outstanding under the rated limits as on date. Furthermore, CARE has withdrawn certain limits which the company has surrendered and there is no outstanding under such limits.

The revision in the short-term rating is on account of the operating profitability (PBILDT) continuing to remain subdued in 9MFY22 (refers to the period April 1 to December 31) which has impacted the debt coverage indicators amidst significant increase in short-term working capital borrowings. There has been significant increase in inventory levels as on December 31, 2021 driven both by volume and substantial increase in prices of raw material and finished goods which has led to elevation in debt level (including acceptances) as on the same date (Rs.1163 crore as on December 31, 2021 as compared to Rs.743 crore as on March 31, 2021). The PBILDT margin remained low at 5.39% in 9MFY22 (7.79% in 9MFY21) with the company being unable to pass on the increase in raw material prices mainly in the Coal Tar Pitch (CTP) segment. The pressure on operating profitability and debt protection metrics is expected to continue in the short term and the company is likely to earn lower than previously envisaged profitability during FY22, and its return ratio is expected to remain subdued during the year.

The ratings, however, continue to draw strength from HSCL's established position in the domestic CTP and Carbon Black (CB) segments, strategic location of its plants, diversified sources of revenue, integrated nature of operations with manufacturing flexibility and reputed client base. The ratings also draw comfort from its comfortable capital structure with overall gearing ratio maintained below 0.5x in FY21 and H1FY22. Furthermore, the ratings take note of no major capex plans of the company in the near term.

The ratings further remain constrained by the inherent susceptibility of its profitability to volatility in raw-material and finished goods prices, foreign exchange fluctuation risk, cyclicality in demand from the end-user industries, stringent pollution norms associated with the industry and threat of carbon black imports in India.

Detailed description of the key rating drivers

Key Rating Strengths

Established position in the CTP and CB segment in India

HSCL has a track record of more than two decades in Coal Tar Distillation (CTD) industry. Furthermore, it ventured into manufacturing of CB in FY10 as a forward-integration initiative for creosote oil, which is generated internally during the coal tar distillation process and the same is used as a raw material for producing CB. HSCL is the largest CTP manufacturer in India, with an installed CTD capacity of 500,000 MTPA. The company is also the third-largest producer of CB in India with an installed capacity of 180,000 MTPA.

Strategic location of its plant

HSCL has manufacturing facilities in West Bengal, Gujarat, Andhra Pradesh and Chhattisgarh. All its plants are in proximity to sources of raw material (near to coke oven plants for sourcing coal tar and/or near to port for sourcing imported raw materials). Furthermore, CTP (in liquid form) needs to be continuously maintained at a very high temperature of around 250°C which makes it an expensive commodity to be transported over a long distance, thereby making it imperative for a CTP manufacturer

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

to be located close to its end users. HSCL has its major plants near the end customers which accentuates the locational advantage.

Diversified and integrated nature of operations resulting in manufacturing flexibility
The operations of HSCL are integrated, wherein a part of the feedstock required for manufacturing CB is generated internally during CTD process. Furthermore, the integration also covers captive power plant and other chemical products. This apart, HSCL has the flexibility to change its output composition from CTD process based on industry demand scenario. In case of weaker demand for CTP, the company can opt for producing higher proportion of oil and thereby reduce its dependency on imported oil Carbon Black Feed Stock (CBFS) for its CB segment. Sales of CTP and CB constituted around 38% and 52%, respectively, of its total operating income (TOI) in FY21. The company also derives revenue from sale of Sodium Naphthalene Formaldehyde (SNF).

Reputed clientele
The primary aluminium industry, the graphite electrode industry and the tyre industry, to which HSCL mainly caters to, has limited number of players due to high entry barriers. HSCL's client list is thus limited but it caters to the requirement of most of the reputed players, thereby reducing offtake and credit risk to an extent. In addition, having limited players in the domestic CTP supply segment also places HSCL in an advantageous position.

Stable demand prospects from key end-user industries; albeit exposed to cyclicality in demand
The key end-user industry for CTP is aluminium and graphite. Improvement in demand conditions in the domestic market and higher realisations are expected to help aluminium producers ramp-up domestic output. Furthermore, the uptick in steel production has led to a pick-up in graphite electrodes demand. The growing demand from the aluminium and graphite industry is expected to translate into improved demand potential for HSCL.
HSCL supplies CB to both tyre and non-tyre segments. The medium-term outlook with respect to tyre production appears stable with major capex expected in the current financial year. This is expected to help in better capacity utilisation of the carbon black capacities. However, HSCL remains exposed to the cyclical nature of the end-user industries.

Comfortable capital structure; albeit increase in debt level in end-9MFY22
HSCL's capital structure continued to remain comfortable with overall gearing remaining stable at 0.39x as on September 30, 2021 (0.43x as on March 31, 2021 and 0.40x as on March 31, 2020). The debt primarily comprises working capital borrowings (fund based and non fund based) and term loans. The total debt of HSCL, however, increased to Rs.1163 crore as on December 31, 2021 (Rs.743 crore as on March 31, 2021) which was majorly due to increase in the working capital requirement (cash credit and LC acceptances) given the higher inventory level and receivables. The inventory level increased significantly as on December 31, 2021, due to import of high volume of raw materials. The management has articulated that it does not plan to undertake any debt-funded capex in the near term and thus the capital structure is expected to remain comfortable.

Key Rating Weaknesses
Significant deterioration in operating profitability and debt coverage indicators on a sustained basis along with subdued ROCE
HSCL's TOI increased by 75% y-o-y in 9MFY22 due to increase in average sales realisation along with marginal growth in sales volumes. However, despite increase in revenue, its PBILDT margin witnessed deterioration in 9MFY22 on a y-o-y basis as well as on a sequential basis in Q2FY22 and Q3FY22 compared with Q1FY22 on account of substantial increase in raw material cost which the company could not pass on especially in the CTP segment and the spreads got impacted.
With decline in profitability and lower cash accruals, HSCL's Total Debt/PBILDT also moderated significantly to 8.28x as on December 31, 2021 as compared to 5.75x as on December 31, 2020. Despite some reduction expected in debt level during March 2022, its Total Debt/PBILDT is envisaged to remain lower than previously envisaged in end-FY22.
Furthermore, its ROCE which had already dipped to a sub-optimal level of around 4.15% in FY21 is envisaged to remain subdued even during FY22.

Moderate capacity utilisation
The capacity utilisation of CTD has improved in 9MFY22 to 70% (65% in FY21) but remained under-utilised due to lower utilisation of the enhanced capacity (enhanced in April 2019).
In CB division, the utilisation level has been lower in FY21 and 9MFY22 due to under-utilisation of the enhanced capacities. The speciality carbon black division commissioned in January 2020 is currently being used for producing commodity grade of carbon black with approvals pending for the specialty black grades from customers.

Profitability susceptible to volatility in commodity prices
Raw material cost constituted around 65%-75% of the total cost of sales of HSCL during the last three years ending FY21. The raw material for CTP, i.e., coal tar, is primarily derived as a by-product from steel manufacturing process, while the raw material for CB is partly produced internally during CTD process and the remaining Carbon Black Feed Stock (CBFS) is procured from open market, which is linked to crude oil prices. Given that the raw material cost is the major cost driver and the prices of which are dependent on industries which exhibit volatility and cyclicality, the profitability of the company is highly susceptible to volatility in raw material prices.

Foreign exchange fluctuation risk
HSCL is exposed to the foreign exchange fluctuation risks due to high dependency on imported raw materials and despite having some export presence it continued to be a net importer. However, the company has a policy to hedge its net foreign exchange exposure as per market condition, which reduces the risk to certain extent.

Stringent pollution norms for the major industry segments
The Central Pollution Control Board (CPCB) regulates the general standards for emission or discharge of environmental pollutants of carbon chemical industry. Presently, HSCL is adhering to the pollution norms of CPCB and all its plants are zero-discharge facility. However, cost of compliance with ever-strengthening pollution control norms remains for the sector.

Threat of imports of Carbon Black
Anti-Dumping Duty on imports of CB from China and Russia were discontinued vide order of the Union Finance Ministry dated January 5, 2021. As China accounts for a significant portion of the world's carbon black capacity and production, any Chinese demand-supply imbalance has the potential to impact market share and performance of domestic players.

Complaint filed against the company by one of the independent directors
HSCL has disclosed to the stock exchanges that it has received emails from National Stock Exchange of India Ltd (NSE) and Securities and Exchange Board of India (SEBI) seeking clarification from the company regarding a complaint filed by one of the Independent Directors of the company alleging certain irregularities pertaining to insider trading provisions, compliance with laws and regulations relating to related party transactions, etc. The company has articulated that it has submitted its response to NSE and SEBI in this regard.

Liquidity: Adequate
HSCL's cash accruals are expected to be adequate to meet its term debt repayment obligations of Rs.47 crore in FY22. In 9MFY22, the company has already booked gross cash accruals of Rs.77.57 crore. The average utilisation of its fund-based working capital limits had been 73% during the past 12 months ended March 22, 2022 with the utilisation levels peaking to between 95% and 100% in few months, thereby limiting the liquidity cushion available with the company. Furthermore, the utilization of its non-fund based working capital limits have elevated to high levels during Q4FY22. This is mitigated to an extent by HSCL's cash and liquid investments of Rs.118.61 crore as on March 21, 2022. The company does not have any major capital expenditure plan in the near term and the accruals are expected to be adequate to meet its working capital and routine capex requirements.

Analytical approach: Standalone

Applicable Criteria
Policy on Withdrawal of ratings
Criteria on Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
Rating Methodology – Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis- Non-Financial Sector

About the Company
HSCL is engaged in the production of carbon chemical products. CTP and CB are the main products of HSCL constituting 52% and 38% of the total income, respectively, in FY21. HSCL is the leading producer of CTP and the third-largest producer of CB in India. As on March 31, 2021, the company had a CTD capacity of 500,000 MTPA, CB capacity of 180,000 MTPA, SNF capacity of 68,000 MTPA, Advanced Carbon of 600 MTPA and captive power plant (CPP) of 20 MW.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (UA)
Total operating income	1792	1691	1958
PBILDT	273	139	105
PAT	81	47	44
Overall gearing (times)	0.40	0.43	NA
Total Debt/PBILDT (times)	2.43	5.23	@ 8.28
PBILDT Interest coverage (times)	5.01	4.20	4.39

A: Audited; UA: Unaudited; NA: Not available, @: annualised
Classified as per CARE Ratings Standards
Status of non-cooperation with previous CRA: NA
Any other information: NA
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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC		-	-	-	0.00	Withdrawn
Commercial Paper-Commercial Paper (Carved out)		-	-	-	0.00	Withdrawn

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	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)CARE AA-; Stable (11-Feb-20)	1)CARE AA-; Stable (13-Dec-18)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (11-Feb-20)	1)CARE AA-; Stable (13-Dec-18)
3	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)Withdrawn (11-Feb-20)	1)CARE A1+ (13-Dec-18)
4	Fund-based - LT-Term Loan	LT	-	-	1)CARE A+; Stable (20-Sep-21)	1)CARE AA-; Negative (03-Dec-20)	1)CARE AA-; Stable (11-Feb-20)	1)CARE AA-; Stable (13-Dec-18)
5	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	-	-	1)CARE A+; Stable / CARE A1+ (20-Sep-21)	1)CARE AA-; Negative / CARE A1+ (03-Dec-20)	1)CARE AA-; Stable / CARE A1+ (11-Feb-20)	1)CARE AA-; Stable / CARE A1+ (13-Dec-18)
6	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (03-Dec-20)	1)CARE AA-; Stable (11-Feb-20)	1)CARE AA-; Stable (13-Dec-18)
7	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	1)CARE A1+ (20-Sep-21)	1)CARE A1+ (03-Dec-20)	1)CARE A1+ (11-Feb-20)	1)CARE A1+ (27-Dec-18) 2)CARE A1+ (13-Dec-18)
8	Non-fund-based - LT/ ST-BG/LC	LT/ST*	-	-	1)CARE A+; Stable / CARE A1+ (20-Sep-21)	1)CARE AA-; Negative / CARE A1+ (03-Dec-20)	1)CARE AA-; Stable / CARE A1+ (11-Feb-20)	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / 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-Term Loan	Simple
2	Fund-based - LT/ ST-CC/Packing Credit	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Commercial Paper-Commercial Paper (Carved out)	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 Ratings Ltd. 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 CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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