

Himadri Speciality Chemical Limited ^(Revised)
 December 27, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Commercial Paper [^]	300.00 (Enhanced from 150.00)	CARE A1+ (A One Plus)	Reaffirmed
Total	300.00 (Rupees Three Hundred crore only)		

Details of instruments/facilities in Annexure-1

[^] The aggregate of CP and other working capital borrowings shall be within the sanctioned drawable fund based working capital limits.

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating to the instrument of Himadri Speciality Chemical Limited (HSCL) takes into account improvement in financial risk profile of the company in FY18 (refers to the period April 1 to March 31) & H1FY19 marked by increased scale of operations, improved profitability and satisfactory leverage and debt protection metrics. Further, the ratings continues to derive comfort from experienced promoters with satisfactory track record, established position in the domestic coal tar pitch (CTP) and carbon black (CB) segment, strategic location of the plant, flexibility in manufacturing operation, reputed clientele, continuous improvement witnessed in capacity utilization, stable demand outlook for CTP and CB and increased competitiveness. However, the ratings are constrained by the profitability susceptible to volatility in raw-material prices, foreign exchange fluctuation risk, working capital intensive nature of operation and stringent pollution norms for the major industry segments. The rating also factors in the implementation risk associated with the ongoing capex programme of the company.

Going forward optimal utilization of manufacturing capacities, maintaining the operating margin, maintenance of capital structure, efficient management of working capital and completion of the on-going project without any time/cost overrun will remain key rating sensitivities.

Detailed description of key rating drivers**Key rating strengths*****Experienced promoters with satisfactory track record***

HSCL's promoters have more than two decades of experience in the coal tar distillation industry. The company 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.

Established position in the domestic coal tar pitch and carbon black segment

HSCL is the largest CTP manufacturer in India, with an installed CTD capacity of 400,000 MTPA. HSCL has a market share of around 70% of domestic CTP market. The company plans to enhance its CTD capacity by 25% to 500,000 MTPA by January 2019 through debottlenecking of its existing facility at a cost of Rs.25 crore.

Strategic location of the plant

HSCL has eight manufacturing facilities spread across India in West Bengal, Gujarat, Andhra Pradesh, Chhattisgarh and Orissa. All of its plants are located in proximity to source of raw-material (near to coke oven plants for sourcing coal tar and near to port for sourcing CBFS/CBO).

Flexibility in manufacturing operation

SCL has the flexibility to change its output composition from coal tar distillation process based on industry demand scenario. In case of weak demand for CTP, the company can opt for producing higher proportion of oil and thereby reduces its dependency on imported oil for CB segment.

Reputed clientele

HSCL caters to leading companies in the aluminium, graphite and tyre sector. Revenue from top five customers accounted for 54% of total revenue in FY18

Continuous improvement witnessed in capacity utilisation

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

The CTD capacity utilization (CU) increased from 101% in FY17 to 107% in FY18 mainly due to increased demand from domestic aluminium players. The CU of CB segment also increased from 81% in FY17 to 86% in FY18 owing to robust product demand primarily driven by the tyre industry. The CU of SNF remained relatively stable at 32% during FY18.

Healthy financial performance in FY18 & H1FY19 characterised by significant revenue growth and improved profitability

HSCL's total operating income witnessed significant growth of around 50% during FY18 vis-à-vis FY17 primarily on the back of increase in realisation of CTP and CB by around 48% and 38% respectively. Further, the revenue growth is also supported by volume growth during the same period. During H1FY19, the company has clocked operating income of Rs.1206.50 crore. However there has been an increase in the raw material prices which has surged during the same period moderating the impact on PBILDT margin to an extent. Despite that, PBILDT margin improved from 17.18% in FY17 to 22.67% in FY18 mainly due to better realisations coupled with change in pricing formulae for CTP segment resulting in improvement in gross spread of CTP.

Comfortable capital structure with improvement in debt protection metrics

HSCL's overall gearing and total debt/GCA improved from 0.78x and 6.54x as on Mar 31, 2017 to 0.51x and 2.37x as on March 31, 2018, respectively, due to repayment of term loans, accretion of profits with healthy cash accruals and lower bank borrowing and higher usage of cash flow from operation to fund its operation.

Stable demand outlook for CTP

The key user industry for coal tar pitch is aluminium and graphite. The Indian aluminium industry has witnessed robust demand growth of 11.7% CAGR during the period from FY12 to FY17. Further, the coal tar pitch demand from domestic graphite sector has also improved due to rising steel production.

Increased competitiveness of Indian CB manufacturers due to structural improvement in global fundamentals

The CB production in China is mainly based on carbon black oil (CBO - which is derived out of processing of waste obtained from coke oven batteries during steel production process), whereas domestic manufacturers produces mainly through CBFS. The CB imports from China has restricted to a great extent in the past two years and has improved the competitiveness of domestic CB manufacturers.

Key Rating Weakness

Profitability susceptible to volatility in prices

Given that the raw-material cost is the major cost driver and the prices of which are volatile in nature, the profitability of the company is highly susceptible to volatility. However, the risk is mitigated to an extent as the company priced its product on 'cost plus margin' formulae.

Project Implementation Risk

HSCL is planning to expand its existing capacity of CTD, advanced carbon and power plant and set up specialty carbon black unit. The total cost of the project is around Rs.630 crore to be entirely funded through internal accruals and is expected to be completed in a phased manner by Q2FY21.

Foreign exchange fluctuation risk

HSCL is exposed to foreign exchange fluctuation risks due to high dependency on imported raw-materials and avilment of foreign currency loan. The company imported around 50 - 55% of its raw material consumed in FY18. However, the company has a policy to hedge its foreign exchange exposure, which mitigates this risk to an extent.

Working capital intensive nature of operation

HSCL's operations are working capital intensive due to high credit period offered to its customers as per the normal industry practice and holding high level of inventory due to lead time involved in import of raw-materials.

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.

Liquidity Analysis:

Average utilisation of the month-end balance of fund-based working capital limit improved to 53% during Nov'17 – Oct'18 as against 70% during June 2016 - May 2017. The liquidity position of the company has improved significantly due to lower reliance on bank borrowing to fund its working capital on the back of

improved cash flow from operation and efficient working capital management. As a result, the current ratio improved from 1.18x in Mar'17 to 1.27x in Mar'18

Analytical approach: Standalone.

Applicable criteria:

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[CARE's methodology for manufacturing companies](#)

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

About the company

Himadri Speciality Chemical Ltd (HSCL: erstwhile known as Himadri Chemicals & Industries Ltd), promoted by Choudhary family of Kolkata, is engaged in production of carbon chemicals products. Coal Tar Pitch (CTP) and Carbon Black (CB) are the main products of HSCL constituting 55% and 38% of net sales respectively in FY18. HSCL is the leading producer of CTP and the third largest producer of CB in India. The company has a coal tar distillation (CTD) capacity of 400,000 MTPA, CB capacity of 120,000 MTPA, Sodium Naphthalene Formaldehyde (SNF) capacity of 68,000 MTPA, Advanced Carbon (AC, 600 MTPA) and captive power plant (CPP) of 20 MW. HSCL is also in the process to increase its CTD capacity by 100,000 MTPA, AC by 20,000 MTPA and CB by 60,000 MTPA, power by 12MW phase-wise by September 2020 at a cost of Rs.630 crore.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1326.78	1990.86
PBILDT	227.89	451.41
PAT	81.17	242.57
Overall gearing (times)	0.70	0.45
Interest coverage	2.83	6.41

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Shri. S. B. Mainak, Hon'ble Chairman of CARE Ratings Ltd (CARE) is an Independent Director in Himadri Speciality Chemical Ltd. He is not a part of rating operations and does not participate in the rating process and the rating notes are not sent to him. To comply with the regulations The Hon'ble Chairman is required not to participate in the rating process and the rating committee meeting and press disclosure about the same to be made by the CRA.

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

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper	-	-	7-180 days	300.00	CARE A1+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (04-Dec-15)
2.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA-; Stable	1)CARE AA-; Stable (13-Dec-18)	1)CARE A+; Stable (03-Jan-18) 2)CARE A; Positive (13-Jul-17)	1)CARE A; Stable (05-Jan-17) 2)CARE A- (15-Sep-16)	1)CARE A- (04-Dec-15)
3.	Fund-based - LT-Cash Credit	LT	435.00	CARE AA-; Stable	1)CARE AA-; Stable (13-Dec-18)	1)CARE A+; Stable (05-Mar-18) 2)CARE A+; Stable (05-Feb-18) 3)CARE A+; Stable (03-Jan-18) 4)CARE A; Positive (13-Jul-17)	1)CARE A; Stable (05-Jan-17) 2)CARE A- (15-Sep-16)	1)CARE A- (04-Dec-15)
4.	Non-fund-based - ST-BG/LC	ST	445.00	CARE A1+	1)CARE A1+ (13-Dec-18)	1)CARE A1+ (05-Mar-18) 2)CARE A1+ (05-Feb-18) 3)CARE A1+ (03-Jan-18) 4)CARE A1+ (13-Jul-17)	1)CARE A1 (05-Jan-17) 2)CARE A2+ (15-Sep-16)	1)CARE A2+ (04-Dec-15)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (13-Jul-17)	1)CARE A; Stable (05-Jan-17) 2)CARE A- (15-Sep-16)	1)CARE A- (04-Dec-15)

6.	Fund-based - LT-Term Loan	LT	93.02	CARE AA-; Stable	1)CARE AA-; Stable (13-Dec-18)	1)CARE A+; Stable (05-Mar-18) 2)CARE A+; Stable (05-Feb-18) 3)CARE A+; Stable (03-Jan-18) 4)CARE A; Positive (13-Jul-17)	1)CARE A; Stable (05-Jan-17) 2)CARE A- (15-Sep-16)	1)CARE A- (04-Dec-15)
7.	Fund-based/Non-fund-based-LT/ST	LT/ST	106.00	CARE AA-; Stable / CARE A1+	1)CARE AA-; Stable / CARE A1+ (13-Dec-18)	1)CARE A+; Stable / CARE A1+ (05-Mar-18) 2)CARE A+; Stable / CARE A1+ (05-Feb-18) 3)CARE A+; Stable / CARE A1+ (03-Jan-18) 4)CARE A; Positive / CARE A1+ (13-Jul-17)	1)CARE A; Stable / CARE A1 (05-Jan-17) 2)CARE A- / CARE A2+ (15-Sep-16)	1)CARE A- / CARE A2+ (04-Dec-15)
8.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (04-Dec-15)
9.	Debentures-Non Convertible Debentures	LT	50.00	CARE AA-; Stable	1)CARE AA-; Stable (13-Dec-18)	1)CARE A+; Stable (03-Jan-18) 2)CARE A; Positive (13-Jul-17)	1)CARE A; Stable (05-Jan-17) 2)CARE A- (15-Sep-16)	1)CARE A- (04-Dec-15)
10.	Commercial Paper	ST	300.00	CARE A1+	1)CARE A1+ (13-Dec-18)	1)CARE A1+ (03-Jan-18) 2)CARE A1+ (19-Sep-17) 3)CARE A1+ (24-Jul-17) 4)CARE A1+ (13-Jul-17)	1)CARE A1 (05-Jan-17)	-

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