October 05, 2020

Himadri Speciality Chemical Limited: Ratings reaffirmed; Long-term rating outlook revised to Negative

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture	150	150	[ICRA]AA- Reaffirmed; Outlook revised to Negative from Stable
Term Loan	52.86	52.86	[ICRA]AA- Reaffirmed; Outlook revised to Negative from Stable
External Commercial Borrowing	JPY 132 million[1]	0	[ICRA]AA- Reaffirmed; Outlook revised to Negative from Stable
Fund-based Limits	671	671	[ICRA]AA- Reaffirmed; Outlook revised to Negative from Stable
Non-fund Based Limits	744	752	[ICRA]AA-/A1+ Reaffirmed; Outlook revised to Negative from Stable
Commercial Paper	300	300	[ICRA]A1+ Reaffirmed
Total	**Rs. 1,917.86 crore and JPY 132 million (Rs. 1,926.47 crore)**	**Rs. 1,925.86 crore**	

Rationale

The revision in the outlook considers the deterioration in demand for Himadri Speciality Chemical Limited's (HSCL) products post the Covid-19 pandemic and the risk of further slippages because of weaknesses across its main user industries viz. aluminium, graphite, and automobile tyres. Consequently, HSCL's financial performance in FY2021 is likely to moderate further compared to FY2020 levels. The above risks are heightened by the company's high cost inventory of carbon black, which would exert additional pressure on margins. Nevertheless, HSCL's overall liquidity position remains strong, especially after refinancing the major portion of its long-term debt at attractive terms. ICRA notes that HSCL's debt repayment liabilities are low, which would keep its debt coverage indicators at a comfortable level even under a stretched market scenario.

The ratings also draw comfort from HSCL's large scale and backward integrated nature of manufacturing operations, which help the company control its costs and product quality. The ratings favourably factor in the diversified product basket of the company, which finds usage in the aluminium smelting, graphitisation, dyes, tyres, paints and other chemical-related products manufacturing industries. ICRA notes that the company's 5-lakh-metric-tonne-per-annum (MTPA) coal tar distillation plant is the largest in India that produces coal tar pitch of various grades and naphthalene for further processing into sulphonated naphthalene formaldehyde (SNF) and is integrated with carbon black (CB) manufacturing lines and a 20-MW power plant. HSCL is looking to introduce value-added products, including specialty blacks. Market acceptance and consequent scale up of these businesses would provide a scope for improvement of

[1] *Equivalent to Rs 8.61 crore*

business margins in the long run. The long-term rating is, however, constrained by the cyclicality in the company's user industries viz. aluminium and graphite and the weak financial position of its overseas subsidiaries. Given the accumulated losses, HSCL provisioned its entire investment in these companies in FY2020 including loans and advances extended.

Going forward, HSCL's debt coverage indicators would continue to remain comfortable notwithstanding the expected moderation in FY2021. The company has already refinanced, at attractive terms, its debt repayment obligations for the current year. Consequently, net repayment obligations are limited, which along with decrement of earlier planned capex is likely to keep the company's overall liquidity position strong despite the market downturn.

Key rating drivers and their description

Credit strengths

Large scale integrated operations – HSCL's scale of operations is large and integrated, starting from coal tar distillation to manufacturing of various carbon-based products and power generation.

Dominant status as operator of the single largest coal tar distillation unit in India – HSCL operates the largest coal tar distillation plant in India. The company enjoys competitive advantage due to its large scale of operations, compared to other entities that are in the similar business.

Strong market position in domestic coal tar pitch and carbon black businesses – The company has a strong market position in the domestic coal tar pitch and carbon black businesses. It has the largest market share in coal tar pitch business and the third largest market share in the carbon black business.

Steady reduction in debt leading to improvement in capital structure – HSCL utilised its cash flows from the business to prepay its long-term debt. It also reduced its working capital debt, resulting in a steady decrease in the overall debt and an improvement in capital structure over the years.

Credit challenges

Deterioration in market conditions post the Covid-19 pandemic– HSCL's market conditions deteriorated sharply post the Covid-19 pandemic. ICRA notes that weak market conditions across its user segments would keep cash flows under check in the current financial year.

Exposed to business cycles – Over 50% of HSCL's sales are derived from the cyclical aluminium and graphite electrode industries, which expose its cash flows to business cycles. This results in variation in return indicators. Stability in business returns at a healthy level is a key rating sensitivity.

Large capex to be undertaken – HSCL is expected to make a sizeable investment to set up an advanced carbon products manufacturing line. Timely scale-up in production and sales levels of these materials would be the key rating factors. However, the company has delayed the capex, given the current market conditions.

Sharp deterioration in carbon black prices – HSCL's profit margins have been further impacted by a sharp deterioration in carbon black prices. This coupled with its high-cost inventory of carbon black resulted in an inventory write down in FY2020. Moreover, the risk of further slippages remains because of more correction in carbon black prices in the current financial year.

Weak overseas subsidiaries – The financial positions of HSCL's overseas subsidiaries are weak, which resulted in the company writing off a sizeable investment in these subsidiaries.

Liquidity position: Strong

HSCL's liquidity is **strong** on account of its steady cash flow from operations, healthy cash and liquid investment balance as on date and adequate headroom in its working capital limit. In FY2021, the company had a large repayment of ~Rs. 166 crore, the major part of which has been refinanced with a fresh debt of Rs. 130 crore drawn at favourable terms. Subsequently debt repayment commitments would be low and ICRA expects HSCL to be able to comfortably meet its near-term commitments through internal accruals and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive triggers – Given the Negative Outlook, an upgrade in the long-term rating is unlikely in the near term. The outlook may be revised if the company is able report a RoCE of over 15% on a sustained basis.

Negative triggers –Pressure on HSCL's rating could arise if the current slowdown in the aluminium, graphite and automobile industries continues for a sustained period, leading to a pressure on the company's business volumes/margins and cash flows. A large debt-funded capital expenditure or adverse regulation in the industry can also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA's approach for rating commercial papers
Parent/Group Support	Not applicable.
Consolidation/Standalone	The rating is based on the consolidated financial profile of the company. As on March 31, 2020, the company had one operating overseas subsidiary and one stepdown subsidiary, which are enlisted in Annexure 2. Given the accumulated losses in the books of the subsidiaries, HSCL wrote off its investments in these companies in FY2020.

About the company

Himadri Speciality Chemical Limited (HSCL) is an integrated manufacturer of various carbon-based products starting from coal tar. The company operates a 5,00,000- MTPA coal tar distillation unit in West Bengal. Various distillates of the plant are used to manufacture coal tar pitch (CTP), various types of carbon blacks (CB), sodium naphthalene formaldehyde (SNF) and other advanced carbon-based materials. The coal tar distillation unit is the single largest such facility in India and the company commands a leading position in the domestic CTP and CB markets.

HSCL reported a standalone profit after tax of Rs. 81.0 crore on an operating income of Rs. 1,804.1 crore in FY2020. During the last financial year, the company reported a consolidated net profit of Rs. 205.4 crore on an operating income of Rs. 1,806.4 crore.

Key Financial Indicators (Standalone, Audited)

	FY2018	FY2019	FY 2020
Operating Income (Rs. crore)	2022.6	2424.2	1804.1
PAT (Rs. crore)	247.6	324.2	81.0
OPBDIT/ OI (%)	22.42%	23.28%	16.6%
RoCE (%)	21.52%	25.76%	6.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.7	1651.5
Total Debt/OPBDIT (times)	1.5	0.8	1.7
Interest Coverage (times)	6.4	7.9	5.5
DSCR	2.5	1.7	0.5

Key Financial Indicators (Consolidated, Audited)

	FY2018	FY2019	FY 2020
Operating Income (Rs. crore)	2021.5	2424.2	1806.4
PAT (Rs. crore)	247.6	324.2	205.4
OPBDIT/ OI (%)	22.38%	23.28%	16.33%
RoCE (%)	21.73%	26.00%	12.02%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.3	0.3
Total Debt/OPBDIT (times)	1.3	0.8	1.7
Interest Coverage (times)	6.4	7.9	5.4
DSCR	2.46	6.63	1.26

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating 05-Oct-20	Date & Rating in FY2020 14-Oct-19	Date & Rating in FY2019 19-Sept-18	Date & Rating in FY2019 30-Jul-18	Date & Rating in FY2019 02-Jul-18
1	Non-convertible Debenture	Long-Term	150	50	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)		
2	Term Loan	Long-Term	52.86	15.03[2]	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)		
3	Fund Based Limits	Long-Term	671	389	[ICRA]AA-((Negative)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)		
4	Non-Fund Based Limits	Long-Term & Short-Term	752	-	[ICRA]AA-(Negative)/A1+	[ICRA]AA-(Stable)/A1+	[ICRA]AA-(Stable)/A1+		
5	Commercial Paper	Short Term	300	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

[2] Out of the rated amount

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-convertible Debenture[3]				100.00	[ICRA]AA- (Negative)
INE019C07031	Non-convertible Debenture	29-10-2013	12.50%	28-10-2020	50.00	[ICRA]AA- (Negative)
NA	Term Loan	2017	-	2022	52.86	[ICRA]AA- (Negative)
NA	Fund Based Limits	-	-	-	671	[ICRA]AA- (Negative)
NA	Non-Fund Based Limits	-	-	-	752	[ICRA]AA- (Negative)/A1+
NA	Commercial Paper[3]				300	[ICRA]A1+

Source: Himadri Speciality Chemical Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
AAT Global Limited	100.00%	Full Consolidation
Shandong Dawn Himadri Chemical Industry Limited	94.00%	Equity Method

[3] *Yet to be placed*

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About ICRA Limited:

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