December 12, 2023

Himadri Speciality Chemical Limited: Ratings reaffirmed; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	92.50	92.50	[ICRA]A+(Stable) reaffirmed; outlook revised to Stable from Positive
Long-term– Fund based	310.00	310.00	[ICRA]A+(Stable) reaffirmed; outlook revised to Stable from Positive
Long-term unallocated limits	28.36	28.36	[ICRA]A+(Stable) reaffirmed; outlook revised to Stable from Positive
Long-term/short-term – Non-fund based	810.00	810.00	[ICRA]A+(Stable)/[ICRA]A1 reaffirmed; outlook revised to Stable from Positive
Long term/short term – Fund based/non-fund based	575.00	575.00	[ICRA]A+(Stable)/[ICRA]A1 reaffirmed; outlook revised to Stable from Positive
Commercial paper	300.00	300.00	[ICRA]A1; reaffirmed
Total	**2,115.86**	**2,115.86**	

**Instrument details are provided in Annexure-I*

Rationale

The change in the rating outlook to Stable considers a likely moderation in Himadri Speciality Chemical Limited's (HSCL) business and financial profile in the medium term over earlier expectations. While there was a healthy improvement in the EBITDA/MT in H1 FY2024, the company's recent acquisition of Birla Tyres Limited (BTL) and its large capex plans for manufacturing critical raw material for lithium ion batteries are likely to weigh on its business and financial profile in the medium term. Though the acquisitions and capex plans will help the company diversify and forward integrate its business and will be funded mostly from internal accruals, they expose the company to execution risks in the near to medium term.

HSCL along with and Dalmia Bharat Refractories Limited (DBRL), acquired BTL in October 2023 through National Company Law Tribunal (NCLT) proceedings under the corporate insolvency resolution process of the Insolvency and Bankruptcy Code. The BTL plant has been shut down for over 30 months and reported operating losses for several years before the shutdown. Hence, the ability of HSCL to recommence production and ramp up sales to achieve profitable operations remains crucial. Further, it is exposed to the inherent risks in the tyre manufacturing business, including stiff competition. Accordingly, the company's ability to achieve the operational profitability of the tyre business will also be a key monitorable.

Further, HSCL has recently announced it large capex plans over the medium term to address a part of the global demand for critical raw material required for lithium ion batteries. The capex is likely to be funded through internal accruals, cash reserves and debt. As a result, it is exposed to project execution risk, including risks of delays and cost overruns. Given the planned capex in the sunrise sector, the company's ability to commission the project within the budgeted cost and estimated timeframe, stabilise the facilities and ramp up sales within a short gestation period, post commissioning, would remain important for the success of its capital expenditure programme.

The reaffirmation of the ratings continues to factor in the company's long track record, its large scale and the backward-integrated nature of its manufacturing operations. Further, HSCL has a strong market position in the domestic coal tar pitch (CTP) and carbon black (CB) businesses with established relationships with customers and suppliers. The ratings also favourably factor in the company's diversified products, which find usage in the aluminium, graphite, tyres, mechanical rubber goods, plastics, dyes and other chemical-related product manufacturing industries. The ratings also factor in a significant improvement in HSCL's operating profit in H1 FY2024 and FY2023 compared to FY2022 and FY2021, driven by higher

EBITDA/MT and likely sustenance of the same, going forward. The improvement in operating profit in H1 FY2024 and FY2023 supported the financial risk profile, reflected in the improved debt coverage metrics and healthy cash and bank balances. Further, the increasing share of specialty carbon black (SB) in the company's sales is likely to support the EBITDA/MT.

ICRA notes that the company's 5-lakh-metric-tonne-per-annum (MTPA) coal tar distillation capacity is the largest in India that produces CTP of various grades and naphthalene for further processing into sulphonated naphthalene formaldehyde (SNF) and is integrated with CB manufacturing lines and a 20-MW power plant. The company's capital structure is comfortable and is likely to remain so with expected strong cash accruals and allotment of share warrants.

The ratings, remain constrained by the cyclicality in the company's end-user industries viz. aluminium and graphite electrode manufacturing, and the foreign exchange fluctuation risk. ICRA notes that the financial position of HSCL's overseas subsidiaries is weak, which resulted in the company writing off a sizeable investment in these subsidiaries in FY2020.

Key rating drivers and their description

Credit strengths

Large scale of integrated operations – HSCL's scale of operation is large and integrated, starting from coal tar distillation to the manufacturing of various carbon-based products and power generation. The company achieved total sales volume of 2,11,241 MT in H1 FY2024 and 4,03,826 MT in FY2023, increasing from 371,974 MMT in FY2022.

Dominant status as operator of the largest coal tar distillation capacity 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 in the 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 with established relationships with its customers and suppliers. It has the largest market share in coal tar pitch and the third-largest market share in carbon black. Further, it has an established track record of more than two decades in CTP manufacturing and more than a decade in CB manufacturing.

Comfortable capital structure – The capital structure continues to be comfortable, indicated by a gearing of 0.4 times and TOL/TNW of 0.7 times as on September 30, 2023. Further, the improvement in operating profit driven by higher EBITDA/MT in H1 FY2024 and FY2023 compared to FY2022 and FY2021 supported the financial risk profile, reflected in the improving debt coverage metrics.

Credit challenges

Volatility in profit margins, exposed to project-related risks – The profit margins remained volatile in the last few years. The profitability and debt protection metrics were subdued in FY2021 and FY2022 due to a decline in operating margins owing to the reduced spreads between raw material costs and end-product realisations. A sequential improvement in EBITDA/MT in the last few quarters has improved the operating profit in FY2023 and H1 FY2024. A sequential improvement in EBITDA/MT for a sustained period would remain a key rating monitorable.

HSCL acquired BTL in October 2023 through the NCLT proceedings under the corporate insolvency resolution process of the Insolvency and Bankruptcy Code. BTL's plant has been shut down for over 30 months and reported operating losses for several years before shutdown. The ability of the company to recommence production and ramp up sales to achieve profitable operations remains crucial. Further, it is exposed to the inherent risk in the tyre manufacturing business, including stiff competition. Accordingly, the company's ability to achieve operational profitability of the tyre business will be a key monitorable.

Further, HSCL has recently announced large capex plans over the medium term to address a part of the global demand for critical raw material required for lithium ion batteries. The capex is likely to be funded through internal accruals, cash reserves and debt. As a result, it is exposed to project execution risk, including the risks of delays and cost overruns. Given the planned capex in the sunrise sector, the company's ability to commission the project within the budgeted cost and estimated timeframe, stabilise the facilities and ramp up sales within a short gestation period, post commissioning, would remain important for the success of its capital expenditure programme.

Exposed to business cycles – More than 50% of HSCL's sales volume are derived from the cyclical aluminium and graphite electrode industries, which exposes its cash flows to business cycles. This results in variation in return indicators. Further, the acquisition of BTL exposes it to inherent risk in the tyre manufacturing business, including stiff competition. Stability in business returns at a healthy level is a key rating sensitivity.

Exposed to foreign exchange fluctuation risk – The major raw material for CTP manufacturing is coal tar. For manufacturing CB, HSCL uses a mix of CBFS and carbon black oil (CBO). CBFS is a crude oil derivative and is mainly imported, exposing HSCL to forex risk. The risk is mitigated to a certain extent as it follows a hedging policy and derives revenue through exports, providing a natural hedge to an extent. However, HSCL continues to be net importer.

Environmental and social risks

The industry is exposed to the risk of tightening regulatory norms for the production, handling, disposal and transportation of chemical products, given the safety and environmental health-related concerns associated with chemicals. Further, in the event of accidents, the litigation risks and the liabilities for clean-up could be high. While HSCL has a demonstrated track record of running its operations safely, the nature of the risk (being low frequency, high impact) weighs on its rating.

Further, operating responsibly is an imperative and instances of non-compliance with environmental, health and safety norms could have an adverse impact on the local community which could manifest in the form of protests, constraining the ability to operate or expand capacity. HSCL hasn't experienced/reported any incident suggestive of safety lapses in its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be monitorable.

Liquidity position: Adequate

HSCL's liquidity is adequate with sufficient buffer in working capital limits and likely positive cash flows from operations, going forward. The average utilisation of its fund-based working capital limits against the drawing power in the last 12 months ended September 2023 is 58%. Further, the company has additional undrawn working capital facility against an FD of ~Rs. 400 crore. The company has an annual debt repayment obligation of ~Rs. 46 crore in FY2024 and Rs. 29 crore in FY2025, which can be comfortably met through internal accruals. The company has plans for capex/investments over the next few years which are likely to be funded from a mix of internal accruals, cash reserves and debt.

Rating sensitivities

Positive factors – The ratings may be upgraded if a sustained improvement in the EBDITA/MT and sales volumes results in healthy operating margins and improves the scale. A specific credit metric which may lead to an upgrade includes total debt/OPBDITA of less than 1.5 times on a sustained basis.

Negative factors – Pressure on the ratings could arise if a decline in volumes/margins and cash flows adversely impacts HSCL's financial metrics. A large debt-funded capital expenditure adversely affecting the company's financial metrics may also result in a downgrade. A specific credit metric which may lead to a downgrade includes interest coverage of less than 5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. As on March 31, 2023, the company had one operating overseas subsidiary and one step-down subsidiary, which have been enlisted in Annexure II. Given the accumulated losses on the books of the subsidiaries, HSCL wrote off its investments in these companies in FY2020

About the company

HSCL is an integrated manufacturer of various carbon-based products, starting with coal tar. The company operates 5,00,000-MTPA coal tar distillation units 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. The manufacturing capacity of carbon black is 1,20,000 MTPA and of specialty CB is 60,000 MTPA.

HSCL along with Dalmia Bharat Refractories Limited (DBRL), acquired BTL in October 2023 through the National Company Law Tribunal (NCLT) proceedings under the corporate insolvency resolution process of the Insolvency and Bankruptcy Code (IBC).

Key financial indicators

Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	2,792.3	4,175.3	1,955.4
PAT	39.1	215.9	186.7
OPBDIT/OI	5.9%	10.2%	14.9%
PAT/OI	1.4%	5.2%	9.5%
Total outside liabilities/Tangible net worth (times)	0.9	0.6	0.7
Total debt/OPBDIT (times)	3.6	2.0	1.8
Interest coverage (times)	4.6	6.4	10.0

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore;*Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)			Chronology of rating history for the past 3 years							
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024			Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
					Dec 12, 2023	Oct 9, 2023	July 7, 2023	Nov 29, 2022	Nov 23, 2021	Aug 24, 2021	Oct 23, 2020	Oct 05, 2020
1	**Term loans**	Long term	92.50	92.50	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)
2	**Fund-based facilities**	Long term	310.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)
3	**Non-fund based facilities**	Long term and short term	810.00	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Positive)/ [ICRA]A1	[ICRA]A+ (Positive)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]AA- (Negative)/ [ICRA]A1+	[ICRA]AA- (Negative)/ [ICRA]A1+	[ICRA]AA- (Negative)/ [ICRA]A1+
4	**Fund based/ Non-fund based facilities**	Long term and short term	575.00	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Positive)/ [ICRA]A1	[ICRA]A+ (Positive)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	-	-	-
5	**Commercial Paper**	Short term	300.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	**Unallocated**	Long term	28.36	-	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	-	-
7	**NCD**	Long term	-	-	-	-	-	-	-	[ICRA]AA- (Negative) Withdrawn	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term– Fund-based facilities	Simple
Long-term - Unallocated facilities	Not Applicable
Long-term/short-term – Non-fund based facilities	Very Simple
Long term/short term – Fund based/non-fund based facilities	Simple
Short term - Commercial paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans – I	Oct 2020	NA	Sep 2024	48.75	[ICRA]A+(Stable)
NA	Term loans – II	Sep 2021	NA	Sep 2026	43.75	[ICRA]A+(Stable)
NA	Fund-based bank facilities	NA	NA	NA	310.00	[ICRA]A+(Stable)
NA	Non-fund based facilities	NA	NA	NA	810.00	[ICRA]A+(Stable)/[ICRA]A1
NA	Fund based/Non-fund based facilities	NA	NA	NA	575.00	[ICRA]A+(Stable)/[ICRA]A1
*	Commercial paper	NA	NA	NA	300.00	[ICRA]A1
NA	Unallocated	NA	NA	NA	28.36	[ICRA]A+(Stable)

*Source: Company; * Not placed*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	HSCL Ownership	Consolidation Approach
Himadri Speciality Chemical Limited	100.00% (rated entity)	Full Consolidation
AAT Global Limited	100.00%	Full Consolidation
Shandong Dawn Himadri Chemical Industry Limited	94.00%	Full Consolidation

Source: HSCL annual report

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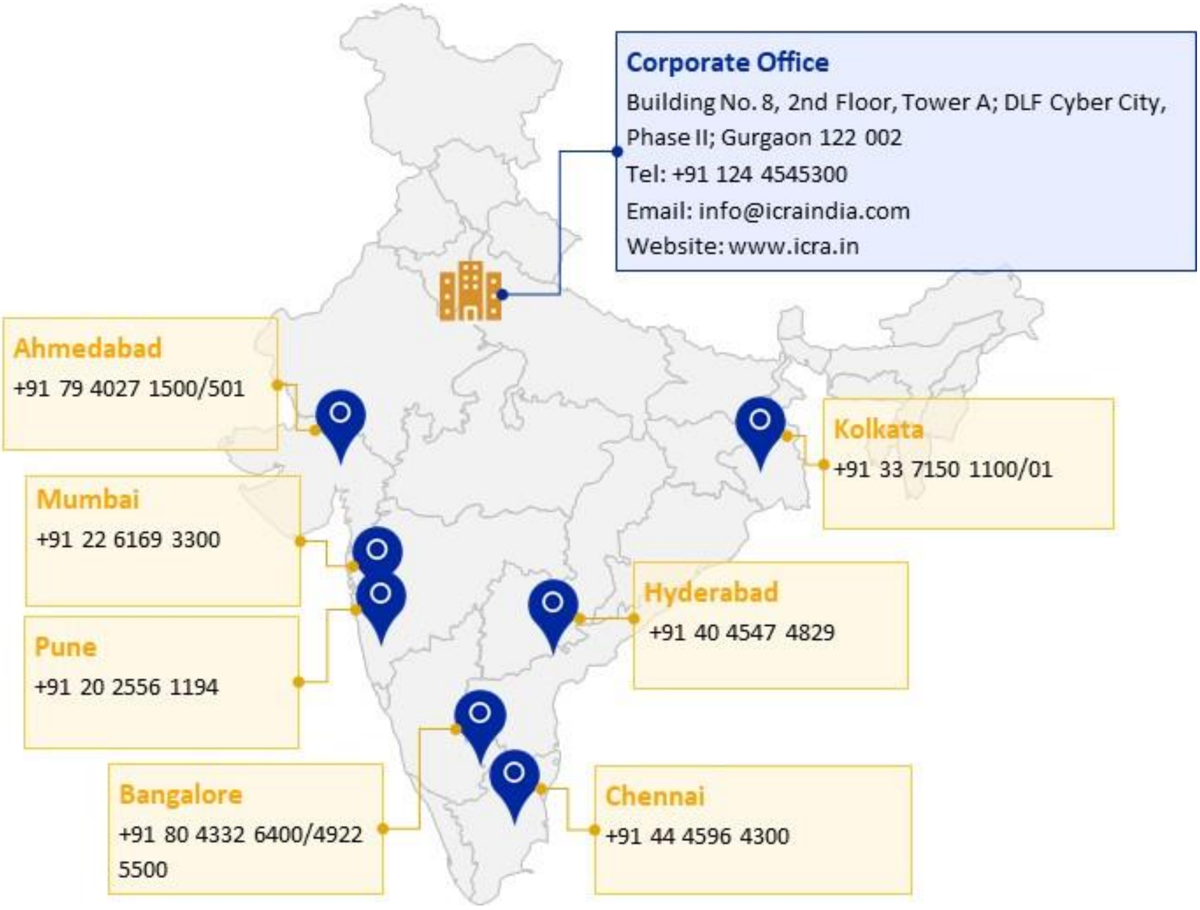

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