July 7, 2023 (Revised)

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Term loan	115.00	92.50	[ICRA]A+ reaffirmed; outlook revised to Positive from Stable
Long-term– Fund based	320.00	350.00	[ICRA]A+ reaffirmed; outlook revised to Positive from Stable
Long-term unallocated limits	70.86	13.36	[ICRA]A+ reaffirmed; outlook revised to Positive from Stable
Long-term/short-term – Non-fund based	780.00	830.00	[ICRA]A+/[ICRA]A1; reaffirmed outlook revised to Positive from Stable
Long term/short term – Fund based/non-fund based	530.00	530.00	[ICRA]A+/ [ICRA]A1; reaffirmed outlook revised to Positive from Stable
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 Positive factors in a significant improvement in Himadri Speciality Chemical Limited's (HSCL) operating profit in 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 FY2023 supported the financial risk profile, reflected in the improved debt coverage metrics and healthy cash and bank balances. The outlook revision also favourably factors in the increasing share of specialty carbon black (SB) in the company's sales, which is likely to support the EBITDA/MT, going forward.

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.

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, however, 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. Further, HSCL has capex plans 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 and cash reserves. The company is exposed to project execution risk, including risks of delays and cost overruns. 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.

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 has achieved total sales volume of 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 0.6 times as on March 31, 2023. Further, the improvement in operating profit driven by higher EBITDA/MT in FY2023 compared to FY2022 and FY2021 supported the financial risk profile, as reflected in the improving debt coverage metrics and healthy cash and bank balance.

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. The operating margins still remain moderate compared to the highs of FY2018 and FY2019. A sequential improvement in EBITDA/MT for a sustained period would remain key rating monitorable.

Further, HSCL has capex plans 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 and cash reserves. The company is exposed to project execution risk, including the risks of delays and cost overruns. 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. 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

Given the safety and environmental health-related concerns associated with chemicals, the industry is exposed to the risk of tightening regulatory norms for the production, handling, disposal and transportation of chemical products. 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 the 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 incidents suggestive of safety lapses in its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be a monitorable.

Liquidity position: Adequate

HSCL's liquidity is adequate with positive cash flows from operations, unencumbered cash and cash equivalents of Rs. 198.3 crore as on March 31,2023 and adequate buffer in working capital limits. The average utilisation of its fund-based working capital limits against the drawing power in the last 12 months ended May 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 internal accruals.

Rating sensitivities

Positive factors – The ratings may be upgraded if a sustained improvement in 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 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 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 CB is 1,20,000 MTPA and of specialty CB is 60,000 MTPA.

Key financial indicators

Consolidated	FY2022	FY2023
Operating income	2,792.3	4,175.3
PAT	39.1	215.9
OPBDIT/OI	5.9%	10.2%
PAT/OI	1.4%	5.2%
Total outside liabilities/Tangible net worth (times)	0.9	0.6
Total debt/OPBDIT (times)	3.6	2.0
Interest coverage (times)	4.6	6.4

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

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 FY2023	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021		
					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+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)
2	Fund-based facilities	Long term	350.00	-	[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	830.00	-	[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	530.00	-	[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+
6	Unallocated	Long term	13.36	-	[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

Instrument	Complexity Indicator
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+(Positive)
NA	Term loans – II	Sep 2021	NA	Sep 2026	43.75	[ICRA]A+(Positive)
NA	Fund-based bank facilities	NA	NA	NA	350.00	[ICRA]A+(Positive)
NA	Non-fund based facilities	NA	NA	NA	830.00	[ICRA]A+(Positive)/[ICRA]A1
NA	Fund based/Non-fund based facilities	NA	NA	NA	530.00	[ICRA]A+(Positive)/[ICRA]A1
*	Commercial paper	NA	NA	NA	300.00	[ICRA]A1
NA	Unallocated	NA	NA	NA	13.36	[ICRA]A+ (Positive)

*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

Corrigendum

Rationale dated July 7, 2023, has been revised with a change in complexity indicator of instrument Commercial Paper from 'Simple' to 'Very Simple' on page number 5.

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