July 09, 2024

Himadri Speciality Chemical Limited: Ratings upgraded to [ICRA]AA-(Stable)/[ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – fund based – Term loan	31.25	31.25	[ICRA]AA-(Stable); Upgraded from [ICRA]A+ (Stable)
Long term/short term – Fund based/non-fund based	754.61	1745.0	[ICRA]AA-(Stable)/[ICRA]A1+; Upgraded from [ICRA]A+(Stable)/ [ICRA]A1
Long term/short term Unallocated Limits	-	39.61	[ICRA]AA-(Stable)/[ICRA]A1+; Upgraded from [ICRA]A+(Stable)/ [ICRA]A1
Short term - Commercial paper	300.00	300.00	[ICRA]A1+; Upgraded from [ICRA]A1
Long-term – Fund Based	280.0	-	-
Long-term/short-term – non-fund based	750.0	-	-
Total	**2,115.86**	**2,115.86**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings upgrade factor in the improvement of Himadri Speciality Chemical Limited's (HSCL) credit profile, driven by sustained growth in operating profits in FY2024 and FY2023 compared to FY2022 and FY2021. Buoyant demand in the near to medium term augurs well for the company's business prospects, and it is likely to sustain a healthy EBITDA/MT going forward. Also, equity of ~Rs. 508 crore has been infused in HSCL in FY2024 and FY2023 with the conversion of warrants into equity shares. Further, an additional ~Rs. 343 crore equity is expected be infused in FY2025 and FY2026 with the conversion of warrants into equity shares (with ~Rs. 85 crore already infused in Q1 FY2025). The improvement in the company's operating profits in FY2024 and the infusion of equity supported the financial risk profile, which is reflected in the improved capital structure, debt coverage metrics and healthy cash and bank balances. The ratings also favourably factor in the increasing share of speciality carbon black (SB) in the company's sales, which is likely to support the EBITDA/MT going forward.

The ratings continue to factor in the company's long track record, 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 as well as suppliers. The ratings also favourably factor in the company's diversified products, which are utilised across industries such as aluminium, graphite, tyres, mechanical rubber goods, plastics, dyes and other chemical-related product manufacturing sectors.

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 28-MW power plant.

The ratings, however, remain constrained by the cyclicality in HSCL's end-user industries, namely aluminium and graphite electrode manufacturing, as well as by foreign exchange fluctuation risks. Nonetheless, the risk is mitigated to an extent as CTP is a key consumable for end-user industries. The forex risk is mitigated to a certain extent as the company follows a hedging policy and derives revenue through exports, providing a natural hedge to an extent. 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.

ICRA notes that HSCL's ability to restart production at the acquired Birla Tyres Limited (BTL) plants and ramp up sales to achieve profitability is crucial. The company is exposed to inherent risks in the tyre manufacturing business, including stiff competition. Accordingly, the company's ability to achieve operational profitability in the tyre business will also be a key monitorable.

Further, HSCL is undertaking a capex of ~Rs. 1,100 crore over the next 27-36 months under phase 1 to establish a manufacturing capacity of critical raw materials (40,000 MTPA) required for lithium-ion batteries. The capex is to be funded through internal accruals and cash reserves. As the company is undertaking a large capex in a sunrise sector, its ability to commission the project within the budgeted costs and estimated timeline, stabilise operations and ramp up sales within a short gestation period, post commissioning, would remain a key monitorable. HSCL is also undertaking a Rs. 220 crore capex to increase its speciality CB capacity to 1,30,000 MTPA by Q1 FY2026 from the existing 60,000 MTPA. Consequently, the company is exposed to project execution risk, including risks of delays and cost overruns.

The Stable outlook on the long-term rating reflects ICRA's expectation that HSCL is likely to sustain its operating metrics. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, aimed at expanding the product portfolio, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

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 various carbon-based products and power generation. The company achieved a total sales volume of 4,75,582 MT in FY2024, up from 4,03,826 MT in FY2023. The sale of speciality oils supported the growth in sales volume in FY2024.

Dominant status as operator of the largest coal tar distillation capacity in India – HSCL operates the largest coal tar distillation plant in India. It enjoys a 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 CTP and CB businesses, bolstered by established relationships with customers as well as suppliers. Further, it has a proven track record of over two decades in CTP manufacturing and more than a decade in CB manufacturing.

Improved financial risk profile with comfortable capital structure – The sustained growth in operating profits in FY2024 and FY2023 driven by higher EBITDA/MT and equity infusion has supported the company's financial risk profile, leading to improved debt coverage metrics. The capital structure is comfortable, indicated by a gearing of 0.2 times and TOL/TNW of 0.5 times as on March 31, 2024.

Credit challenges

Volatility in profit margins, exposed to project-related risks – The company's profit margins were volatile in the previous years, as observed in FY2021 and FY2022, due to a decline in operating margins owing to the reduced spreads between raw material costs and end-product realisations. As a result, the profitability and debt protection metrics were subdued. However, improved EBITDA/MT enhanced the operating profit for FY2024 and FY2023.

HSCL along with Dalmia Bharat Refractories Limited (DBRL), acquired Birla Tyres Limited (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 three years and reported operating losses for several years prior to the shutdown. Hence, HSCL's ability to recommence production and ramp up sales to achieve profitable operations remains crucial. Further, the company is exposed to 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 is undertaking a capex of ~Rs. 1,100 crore over the next 27-36 months under phase 1 to establish a manufacturing capacity of critical raw materials (40,000 MTPA) required for lithium-ion batteries. The capex is to be funded through internal accruals and cash reserves. As the company is undertaking a large capex in a sunrise sector, its ability to commission the project within the budgeted costs and estimated timeline, stabilise operations and ramp up sales within a short gestation period, post commissioning, would remain a key monitorable. HSCL is also undertaking a Rs. 220 crore capex to increase its speciality CB capacity to 1,30,000 MTPA by Q1 FY2026 from the existing 60,000 MTPA. Consequently, the company is exposed to project execution risk, including risks of delays and cost overruns.

Exposed to business cycles – More than 45% of HSCL's sales volume is derived from the cyclical aluminium and graphite electrode industries, exposing its cash flows to business cycles leading to variability in return indicators. Nonetheless, the risk is mitigated to an extent as CTP is a key consumable for end-user industries Further, the acquisition of BTL exposes the company to inherent risk in the tyre manufacturing business, including stiff competition.

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 the company 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, 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 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 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 ending March 2024 is ~ 51%. Further, the company has an additional undrawn working capital facility against an FD of ~Rs. 511 crore. The company has an annual long-term debt repayment obligation of ~Rs. 13 crore each in FY2025 and FY2026, which can be comfortably met through internal accruals. HSCL has plans for capex/investments over the next few years, which are likely to be funded by a mix of internal accruals and cash reserves.

Rating sensitivities

Positive factors – The ratings may be upgraded if there is a sustained improvement in the EBDITA/MT, sale volumes and revenues along with low debt levels, translating into healthy credit metrics.

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 total debt/OPBDITA of greater than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemicals
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. The details of subsidiaries are enlisted in Annexure II

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. Various distillates of the plant are used to manufacture 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 speciality 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 (audited)

Consolidated	FY2023	FY2024
Operating income	4,175.3	4,186.1
PAT	215.9	410.7
OPBDIT/OI	10.2%	15.2%
PAT/OI	5.2%	9.8%
Total outside liabilities/Tangible net worth (times)	0.6	0.5
Total debt/OPBDIT (times)	2.0	1.0
Interest coverage (times)	6.4	10.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years							
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024					Date & rating in FY2023		Date & rating in FY2022
				Jul 9, 2024	Mar 28, 2024	Dec 12, 2023	Oct 9, 2023	Aug 31, 2023	July 7, 2023	Nov 29, 2022	Nov 23, 2021	Aug 24, 2021
1	Term loans	Long term	31.25	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)
2	Fund based/ Non-fund based facilities	Long term and short term	1745.00	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Positive)/ [ICRA]A1	[ICRA]A+ (Positive)/ [ICRA]A1	[ICRA]A+ (Positive)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A 1	-
3	Commercial Paper	Short term	300.00	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A 1	[ICRA]A1+
4	Unallocated	Long term and short term	39.61	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	-	-	-	-	-	-
5	Fund-based facilities	Long term	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)
6	Non-fund based facilities	Long term and short term	-	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Positive)/ [ICRA]A1	[ICRA]A+ (Positive)/ [ICRA]A1	[ICRA]A+ (Positive)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A 1	[ICRA]AA- (Negative)/ [ICRA]A1+
7	Unallocated	Long term	-	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)
8	NCD	Long term	-	-		-	-	-	-	-	-	[ICRA]AA- (Negative) Withdrawn

Complexity level of the rated instruments

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

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	Sep 30, 2021	NA	Sep 30, 2026	31.25	[ICRA]AA-(Stable)
NA	Fund based/Non-fund based facilities	NA	NA	NA	1745.0	[ICRA]AA-(Stable)/ [ICRA]A1+
*	Commercial paper	NA	NA	NA	300.00	[ICRA]A1+
NA	Unallocated	NA	NA	NA	39.61	[ICRA]AA-(Stable)/ [ICRA]A1+

*Source: Company; * Yet to be 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
Combe Projects Private Limited	100.00%	Full Consolidation
Himadri Clean Energy Limited	100.00%	Full Consolidation
Himadri Future Material Technology Limited	100.00%	Full Consolidation
Himadri Birla Tyre Manufacturer Private Limited	Group entity	Full Consolidation

Source: HSCL annual report FY2024

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About ICRA Limited:

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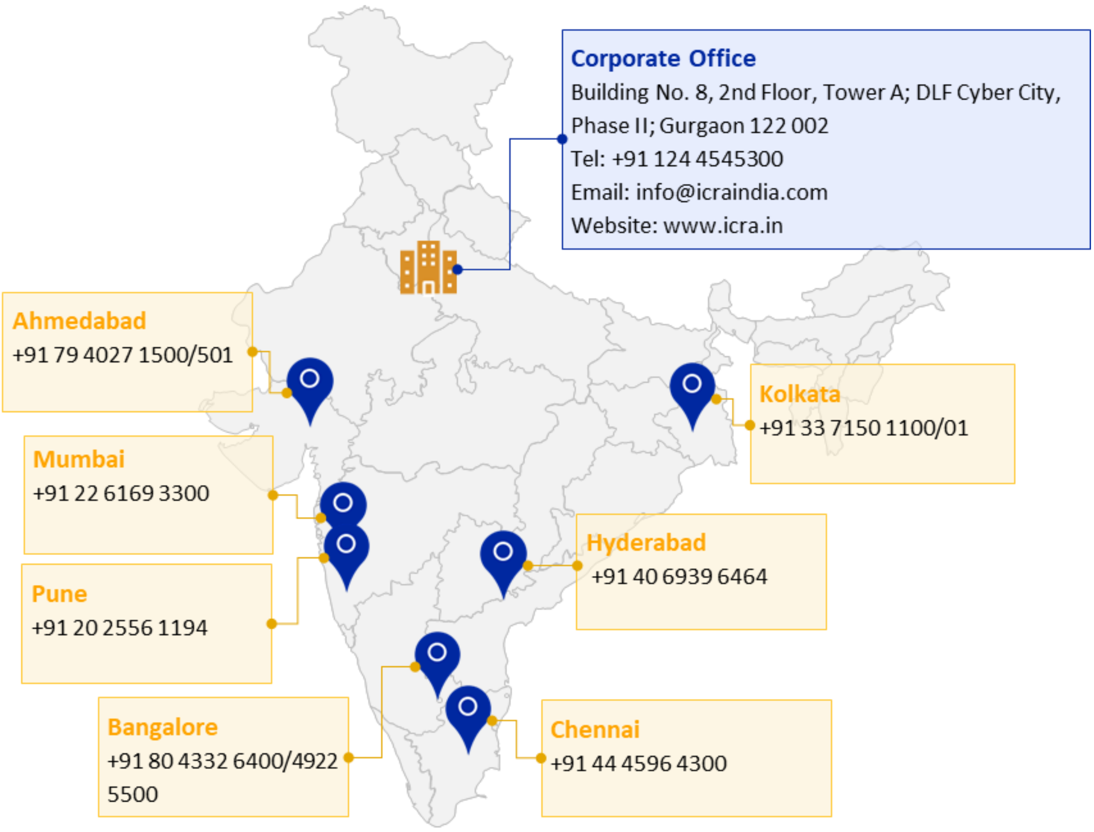

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