

February 24, 2017

SKI Carbon Black (India) Private Limited

Instrument*	Amount Rated (Rs. crore)	Rating Action
Long-term / short-term, fund based / non-fund based facilities	800.0 (reduced from 1,100.0)	[ICRA]AA (stable) / upgraded from [ICRA]AA- (positive), [ICRA]A1+ / re-affirmed
Long-term loans	200.0	[ICRA]AA- (positive) Rating withdrawn
Commercial paper programme	200.0	[ICRA]A1+ / re-affirmed

* Instrument Details are provided in Annexure-1

Rating Action

ICRA has upgraded the long-term rating assigned to the Rs. 800.0 crore¹ (reduced from Rs. 1,100.0 crore), long-term / short-term, fund based / non-fund based bank facilities of SKI Carbon Black Private Limited (SKI Carbon) to [ICRA]AA (pronounced ICRA double A)² from [ICRA]AA- (pronounced ICRA double A minus) and re-affirmed the short-term rating at [ICRA]A1+ (pronounced ICRA A one plus). The outlook on the long-term rating is stable. ICRA has also re-affirmed the [ICRA]A1+ rating assigned to the Rs. 200.0 crore, Commercial Paper Programme of SKI Carbon. ICRA has, moreover, withdrawn the rating assigned to the Rs. 200.0 crore, long-term loans of SKI Carbon, as the company has fully redeemed the instrument on maturity. There is no amount outstanding against the rated instrument.

Rationale

The rating upgrade takes into account the sustained improvement in profitability and liquidity profile of the company on the back of increased use of alternative sources of raw material, depending on cost economics and the receipt of the balance refund of entry tax in Uttar Pradesh paid in protest. The company's ability to use alternative feedstock has partly mitigated the risks arising from exposure to volatility in crude oil prices and cheap imports from China, resulting in improvement in EBITDA/MT and thus cash flows, resulting in a cash surplus situation as on December 2016.

The ratings continue to reflect SKI Carbon's strong parentage, as part of the Aditya Birla Group, which enjoys a leading position in the global carbon black business, and its associated financial flexibility. ICRA notes the improving competitiveness of the domestic carbon black manufacturers on the back of reduction in crude oil prices, resulting in reduction in carbon black feedstock (CBFS) prices compared to coal tar prices and the continuation of anti-dumping duty levied on imports of carbon black from China. This is critical for sustaining improvement in volume off-take for domestic producers, and thus an improvement in margins. While the spread between CBFS and alternative feedstock has reduced over the last few months with increase in crude oil prices, SKI Carbon has benefitted from the use of alternative feedstock.

Nonetheless, the ratings take into consideration the company's exposure to volatility in crude oil prices, which determines its inventory valuations and thus working capital requirements. Furthermore, the company also continues to remain susceptible to cyclicalities in the domestic automobile industry to a limited extent. ICRA notes that the demand from the tyre replacement market and non-tyre segments

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA Rating Publications

account for more than 70% of carbon black demand, which can help protect the company's business in case of any slowdown in the domestic automobile industry.

ICRA also notes that the company is operating at almost full capacity utilisation. However, the company is working on de-bottlenecking opportunities to increase the production from existing capacities. Further, the company is also evaluating an expansion project to increase its production capacities. ICRA would continue to monitor the company's steps towards improving volume sales. SKI Carbon's ability to sustain its improved profitability and coverage indicators through better product mix, synergy benefits and technology inputs from its group entities, are the key rating sensitivities.

Key Rating Drivers

Credit Strengths

- Leadership position in the domestic carbon black industry;
- Part of the Aditya Birla Group provides financial flexibility;
- Technology and scale benefits arising out of being part of one of the largest global producers and geographically diversified carbon black operations, while technological know-how to use alternative sources of raw material depending on cost economics provides competitive advantage;
- Improving competitiveness of domestic manufacturers of carbon black because of reduction in crude oil prices and continuation of anti-dumping duty levied on imports of carbon black from China has reduced the cost advantage for Chinese manufacturers of carbon black;
- Refund of entry tax in Uttar Pradesh paid under protest has supported improvement in cash flows and liquidity profile;
- Improvement in capital structure, debt servicing indicators and liquidity on the back of improved accruals; currently cash surplus situation.

Credit Weakness

- Imports of carbon black from China, though reducing, continue to be a major threat for the entire domestic carbon black industry, along with high sensitivity to Government policies pertaining to levy of anti-dumping duties on imports as well as anti-dumping duty not effective in the event of imports against Advance Licenses;
- Exposure to volatility in crude oil prices, with increase in crude oil prices resulting in an increase in price of carbon black feedstock that can reduce the competitiveness of the domestic manufacturers of carbon black, as well as result in increased working capital requirements, which may adversely impact gearing and debt servicing indicators; however, risks mitigated for SKI Carbon on account of its ability to use alternative feedstock;
- Business growth susceptible to cyclicalities in domestic automobile industry; however, the demand from the tyre replacement market and non-tyre segments, which account for more than 70% of the carbon black demand, can help protect the company's business in case of any slowdown in the domestic automobile industry.

Description of key rating drivers highlighted above:

Carbon black is a strategic and integral part of the Aditya Birla Group's current operations and future growth plans. With a total annual capacity of ~2 million MT, the Aditya Birla Group's carbon black business—Birla Carbon—is the second largest producer of carbon black in the world. The Group derives synergies by marketing under the brand, 'Birla Carbon', and the central procurement of feedstock.

With ~75-80% of its total carbon black sales made to tyre manufacturing companies, SKI Carbon's business growth is susceptible to cyclicity in the domestic automobile industry to a limited extent. ICRA notes that the demand from the tyre replacement market and non-tyre segments account for more than 70% of carbon black demand, which can help protect the company's business in case of any slowdown in the domestic automobile industry.

The imports of carbon black into India from China were high until FY2014, because of the landed cost of carbon black being cheaper than the prices quoted by domestic manufacturers. These cheap imports from China were possible because of the wide availability and lower cost of input material (coal tar) in China as compared to India (which imports CBFS from the US Gulf Coast). However, starting December 2014, with a decline in the price of crude oil, the cost of CBFS from the US Gulf Coast (USGC) dropped significantly, even below the price of Chinese coal tar, thereby reducing the cost advantage for Chinese manufacturers of carbon black. Coupled with continued anti-dumping duty on imports from China, these factors have restored a level playing field for Indian manufacturers. The same is evident from the declining imports from China.

Furthermore, ~75-80% of SKI Carbon's sales are determined using a pricing formula, which takes into account changes in oil prices and the Rupee-Dollar (US\$) exchange rate on a periodic basis. SKI Carbon's profitability is also supported by the sale of power generated from the production of waste gas (or tail gas) from the carbon black manufacturing process. The amount of electricity generated each year is dependent on the volume of carbon black produced, and thus the availability of lean gas for the power segment.

Analytical Approach: -**Links to applicable Criteria****Corporate Credit Ratings: A Note on Methodology****About the Company**

SKI Carbon Black (India) Private Limited, an Aditya Birla Group Company, is a wholly-owned subsidiary of SKI Carbon Black (Mauritius) Limited, which is a wholly-owned subsidiary of SKI Investments Pte Limited. With effect from April 01, 2013, SKI Carbon acquired the carbon black business (Hi-Tech Carbon) of Aditya Birla Nuvo Limited (ABNL), on a going concern basis, by way of slump sale for a lump sum consideration of Rs. 1,451 crore as enterprise value. SKI Carbon has also acquired the co-generation power plants with a capacity to generate 73.7 MW units per annum.

The Hi-Tech Carbon business started its operations in 1988 from Renukoot (Uttar Pradesh). In 1998, it opened its second plant at Gummidipoondi (Tamil Nadu), and commissioned its third plant at Patalganaga in Maharashtra in 2010. The company's R&D Centre is in Taloja (Maharashtra), registered office in Mumbai, marketing office in Delhi and regional office in Chennai, along with stocking points in several states.

Recent Results

For the 12-month period ended March 31, 2016, SKI Carbon reported a profit after tax (PAT) of Rs. 181.1 crore on an operating income (OI) of Rs. 1,675.7 crore, as against a PAT of Rs. 89.1 crore on an OI of Rs. 2,239.3 crore for the 12-month period ended March 31, 2015.

For the nine months ended December 31, 2016 (provisional), SKI Carbon reported a PAT of Rs. 115.2 crore on an OI of Rs. 1,154.3 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month- year & Rating in FY2016		Month- year & Rating in FY2014
				February 2017	January 2016	April 2015	November 2013
1	Fund based / Non-fund based	Long-term / Short-term	800.0	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA-(positive)/ [ICRA]A1+	[ICRA]AA-(stable)/ [ICRA]A1+	[ICRA]A+(stable)/ [ICRA]A1+
2	Term loans	Long-term	-	Withdrawn	[ICRA]AA-(positive)	[ICRA]AA-(Stable)	[ICRA]A+(Stable)
3	Commercial Paper Programme	Short-term	200.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Non-Convertible Debenture Programme	Long-term	-		Withdrawn	[ICRA]AA-(stable)	[ICRA]A+(stable)

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

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Long-term / short-term, fund based / non-fund based limits	-	-	-	800.0	[ICRA]AA (stable)/ [ICRA]A1+
Commercial Paper Programme	-	-	-	200.0	[ICRA]A1+

Source: SKI Carbon

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