

Himadri Speciality Chemical Limited

July 02, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	200	[ICRA]A1+ assigned
Total	200	

Rating action

ICRA has assigned a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus)¹ to the Rs. 200.00-crore² commercial paper (CP) programme of Himadri Speciality Chemical Limited (HSCL).

Rationale

The short-term rating takes into consideration HSCL's large scale and backward integrated nature of manufacturing operations, which help the company in controlling its costs and product quality. The rating favourably factors 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 4-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 oil for further processing into sulphonated naphthalene formaldehyde (SNF) and is integrated with carbon black (CB) manufacturing lines and a 20-MW power plant. HSCL's distillation unit uses coal tar as the primary raw material, which is a by-product of coke oven batteries.

While assigning the rating, ICRA takes cognisance of HSCL's improving financial metrics as indicated by improving capital structure, debt coverage indicators and business return indicators. The improvement in financial indicators have been sharp, aided by the upturn in realisations as well as business volumes, in the last two financial years, as well as a healthy supply-demand balance. While exposure to commodity prices remain, the demand outlook from the user industries remains buoyant. ICRA also notes that the company has plans to expand capacities, including specialty carbon black and advanced carbon products, which are likely to support the business risk profile of the company. ICRA expects the overall investments for the projects to be sizeable. However, with healthy cash flows from current operations, requirement of additional debt would be limited, which in turn would support the overall capital structure and debt coverage indicators, going forward.

Key rating drivers

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.

¹ For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

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 compared to entities in the similar nature of business.

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

Steady reduction in debt leading to improvement in capital structure – HSCL has utilised its cash flows from business to prepay its long-term debt. The company has also been able to reduce its working capital debt, resulting in a steady reduction in overall debt and improvement in capital structure.

Focus on development and sale of advanced carbon material – HSCL’s focus on development and sale of advanced carbon material, which commands a premium in the market, is likely to improve its overall business risk profile, going forward.

Credit challenges

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 variations 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 increase its capacity, including specialty carbon black and advanced carbon products. Timely scale up in production and sales levels of these materials would be key rating factors.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

ICRA’S APPROACH FOR RATING COMMERCIAL PAPERS

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 4,00,000 metric tonnes per annum (MTPA) coal tar distillation unit in West Bengal and the 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.

Key Financial Indicators (Audited)

	FY 2016	FY 2017	FY2018
Operating Income (Rs. crore)	1160.2	1326.1	1971.2
PAT (Rs. crore)	-16.4	81.2	242.6
OPBDIT/ OI (%)	13.25%	18.65%	22.83%
RoCE (%)	4.76%	11.00%	20.90%

Total Debt/ TNW (times)	0.9	0.7	0.4
Total Debt/ OPBDIT (times)	5.6	3.0	1.4
Interest coverage (times)	1.4	3.1	6.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Commercial Paper	200		July 2018 [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

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	Commercial Paper				200	[ICRA]A1+

Source: Himadri Speciality Chemical Limited

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About ICRA Limited:

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