

India Carbon Limited

July 10, 2018

Summary of rated instruments

| Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|---------------------------|-------------------------------------|-----------------------------|
| Fund-based facilities | 27.03 | [ICRA]A- (Stable); Assigned |
| Non-fund based facilities | 72.97 | [ICRA]A2+; Assigned |
| Total | 100.00 | |

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 27.03-crore¹ fund-based facilities of India Carbon Limited (ICL)². The outlook on the long-term rating is Stable. ICRA has also assigned a short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) to the Rs. 72.97-crore non-fund based facilities of the company.

Rationale

The ratings favourably factor in the substantial improvement in the company's financial performance in FY2018, driven by buoyant realisations of calcined petroleum coke on the back of healthy demand from both aluminium and graphite electrode industries. ICRA expects such firm demand to sustain going forward, supporting the financial performance of the company. With healthy cashflows and absence of any debt repayment obligation at present, the debt coverage indicators of the company are also expected to remain healthy. The financial profile of the company is further supported by the presence of a large investment portfolio, which lends considerable financial flexibility and liquidity to the company. The ratings also factor in the experience of the promoters and the established track record of the company in the calcined petroleum coke (CPC) industry, supported by its technical collaboration with Oxbow Calcining LLC, USA. The company also enjoys location-specific advantage as its Guwahati plant is located adjacent to the refinery of Indian Oil Corporation Limited (IOCL), resulting in low inward freight costs for raw petroleum coke (RPC). In addition, the Guwahati plant is entitled to the GST refunds (29% of IGST) under the North East Industrial and Investment Promotion Policy, 2017 for ten years till FY2027, which is also expected to support the company's operating profitability, going forward. The ratings are, however, tempered by the company's modest scale of operations and its exposure to the cyclicity of the end-user industries and fluctuations in raw material prices, which keep profitability and cash flows of all CPC players, including ICL, volatile. The ratings are also tempered by the working-capital-intensive nature of operations due to high raw material inventory levels. While ICRA notes that the company is evaluating various growth opportunities, it is yet to finalise the same. The scope, scale and funding of the capex towards any such growth opportunity that the company finalises would be key rating sensitivities, going forward. Healthy cashflows from the existing business and the presence of a sizeable liquid investment portfolio would, however, provide financial flexibility to the company to fund such capex outflows.

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

Outlook: Stable

ICRA expects that ICL will continue to benefit from the positive demand outlook for the aluminium and graphite electrodes and its established track record in the CPC industry. The outlook may be revised to Positive if there is a sustained growth in revenue and profitability, supported by the uptrend in CPC realisations. The outlook may be revised to Negative if there is a sharp deterioration in the financial performance due to a reversal in industry conditions. Any major debt-funded capital expenditure plans may also have an adverse impact on the financial profile of the company.

Key rating drivers

Credit strengths

Established player in the domestic CPC industry; long relationships with clients in the aluminium and graphite electrode industry - Incorporated in 1961, ICL is an established player in the domestic CPC industry supplying to the domestic aluminium, steel and graphite manufacturers. Although ICL is a relatively small player in the domestic CPC industry with a capacity of 100,800 TPA compared to some of the larger players in India, it has long association with reputed clients, which ensures a healthy order book. In the aluminium industry, ICL supplies to National Aluminium Company (NALCO), HINDALCO and The Kerala Minerals and Metals Limited. In the graphite industry, its largest customers are HEG Ltd. and Graphite India Ltd.

Sharp improvement in financial performance in FY2018 - ICL's financial profile witnessed a significant improvement in FY2018 on the back of an uptick in CPC realisations and favourable CPC demand in the market. The operating income increased to Rs. 343.96 crore in FY2018 from Rs. 129.94 crore in FY2017. The operating margin also improved from 3.98% in FY2017 to 30.03% in FY2018 on the back of higher increase in realisations relative to input costs. The capital structure remained conservative, notwithstanding an increase in gearing levels from 0.08 times as of end-FY2017 to 0.40 times as of end-FY2018. Although gross debt increased as of end-FY2018 due to higher working capital loans (buyers credit) towards large imports during H2 FY2018, ICL had a cash and liquid investment balance of ~Rs. 129 crore as of end-FY2018, resulting in negative net debt level. ICRA notes that such short-term debt has been fully repaid in the last week of June 2018. Healthy profitability led to comfortable debt coverage indicators with interest cover at 32.28 times and Total debt/OPBITDA at 0.61 times during FY2018.

Location-specific advantage of ICL's Guwahati plant - ICL enjoys a location-specific advantage for its Guwahati plant, which is adjacent to IOCL's refinery, resulting in low inward freight costs for RPC. Proximity to the main producers of RPC also ensures constant supply of high quality anode-grade RPC. In addition, the Guwahati plant is entitled to GST refunds (29% of IGST) under the North East Industrial and Investment Promotion Policy 2017 for ten years till FY2027, which is expected to support the company's operating profitability.

Positive outlook for the aluminium and graphite electrode industry - Aluminium producers use CPC as the primary raw material to manufacture anodes used in aluminium smelting. The demand outlook for the aluminium industry is likely to be positive, given the capacity expansion programme announced by the major domestic aluminium producers. On the other hand, the graphite manufacturers use CPC as the primary raw material for manufacturing certain grades of graphite electrodes, which are used in steel making through both the electric arc furnace (EAF) and blast furnace routes. The demand outlook for the graphite electrode industry is also favourable.

Credit challenges

Exposed to the cyclical nature of end-user industries and fluctuations in raw material prices - ICL is exposed to fluctuations in RPC prices and cyclical nature of end-user industries, which keep profitability and cash flows of all CPC players, including ICL, volatile.

Exposed to foreign currency risks; however, the company's hedging policy mitigates the same to an extent - For the Budge Budge plant, ICL is fully dependent on imported RPC, which exposes it to foreign currency risks. While the company's hedging policy mitigates the same to an extent, any adverse movement in exchange rates would affect ICL's profitability to the extent of its unhedged forex exposure.

Working capital intensive operations resulting from high raw material inventory levels - The company's operations are working capital intensive as RPC is imported for its Budge Budge unit, which results in high inventory levels. Inventory days increased from 78 days as of end-FY2017 to 96 days as of end-FY2018.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Ferrous Metals Industry](#)

About the company

ICL, established in 1961 by Mr. B. P. Himatsingka, had set up Asia's first calcination plant in Guwahati in 1962. Since its inception, the company has been in technical and financial collaboration with Oxbow Calcining LLC (formerly Great Lakes Carbon LLC), USA – a leading player in the international calcined petroleum coke industry. ICL had established its second calcination plant in 1969 at Budge Budge, West Bengal. ICL has an installed capacity of 100,800 tonne per annum (TPA) of calcined petroleum coke, 19,500 TPA of electrode carbon paste and tamping paste and 45,000 TPA of desiccated petroleum coke powder.

In FY2018, the company reported a net profit of Rs. 79.31 crore on an operating income of Rs. 343.96 crore compared to a net profit of Rs. 18.88 crore on an operating income of Rs. 129.94 crore in the previous year.

Key financial indicators (audited)

| | FY2017 | FY2018 |
|------------------------------|--------|--------|
| Operating Income (Rs. crore) | 129.94 | 343.96 |
| PAT (Rs. crore) | 18.88 | 79.31 |
| OPBDIT/OI (%) | 3.98% | 30.03% |
| RoCE (%) | 32.24% | 66.94% |
| Total Debt/TNW (times) | 0.08 | 0.40 |
| Total Debt/OPBDIT (times) | 1.15 | 0.61 |
| Interest coverage (times) | 2.41 | 32.28 |

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 |
| | | | | July 2018 | | December 2016 | December 2015 |
| 2 | Fund-based facilities | 27.03 | | [ICRA]A- (Stable) | - | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) |
| 3 | Non-fund based facilities | 72.97 | | [ICRA]A2+ | - | [ICRA]A4+ suspended | [ICRA]A4+ |

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 | Fund-based facilities | NA | NA | NA | 27.03 | [ICRA]A-(Stable) |
| NA | Non-fund based facilities | NA | NA | NA | 72.97 | [ICRA]A2+ |

Source: India Carbon Limited

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