September 15, 2020

India Carbon Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based facilities	52.40	52.40	[ICRA]BBB+ (Negative); Reaffirmed
Non-fund-based facilities	47.60	47.60	[ICRA]A2; Reaffirmed
Total	**100.00**	**100.00**	

Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation continues to factor in the experience of the promoters and the established track record of India Carbon Limited (ICL) in the calcined petroleum coke (CPC) industry, supported by its technical collaboration with Oxbow Calcining LLC, the US. The company's 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 refund (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 profitability, to some extent. The ratings also draw comfort from the company's significant amount of cash and liquid investments, supporting its liquidity position.

The ratings are, however, constrained by ICL's exposure to the cyclicality of the end-user industries and fluctuations in raw material prices, which keep profitability and cash flows of all the players in the industry, including ICL, volatile. ICL registered a significant operating loss in FY2020 due to devaluation in its inventory on account of a sharp decline in the market prices of raw materials and a fall in realisations due to weakening of demand. The inventory loss did not continue in Q1 FY2021 and the company was able to achieve a nominal operating profit despite shutdown of operations till mid-May 2020 due to the Covid-19 pandemic. However, a challenging operating environment due to the Covid-19 pandemic is likely to have a bearing on the company's performance in the current fiscal. The ratings are further constrained by the company's exposure to fluctuation in foreign currency exchange rates as it is dependent on imported RPC for its Budge Budge plant. However, ICL's formal hedging policy mitigates such risks to an extent. Further, the company will remain exposed to the Government regulations related to pollution norms and import restrictions on raw materials implemented from time to time, given the significant environmental impact of raw materials and end products.

The Negative outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that a sustained improvement in ICL's revenue and profitability remains vulnerable to the ongoing economic slowdown due to the pandemic coupled with volatility in demand from the end-user industries. The company registered a nominal operating profit (Rs. 0.12 crore) in Q1 FY2021 after recording operating losses in the previous five consecutive quarters. However, an improvement in profits and cash flows on a sustained basis will remain critical from the credit perspective.

Key rating drivers and their description

Credit strengths

Established player in domestic calcined petroleum coke industry – Incorporated in 1961, ICL is an established player in the domestic CPC industry and supplies to the domestic aluminium, steel and graphite manufacturers. Although ICL is a relatively small player in the domestic CPC industry with a capacity of 1,00,800 TPA compared to some of the larger players in India, it has long association with reputed clients, mainly in the aluminium and graphite electrode industry.

Location-specific advantage of the company's Guwahati plant due to proximity to raw material source – ICL enjoys 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 producer 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 profitability.

Significant amount of cash and liquid investment supports liquidity position and keeps borrowings low – The company had a sizeable cash and liquid investment of around Rs. 45.62 crore as on June 30, 2020, which supports liquidity position of the company and reduces borrowings, as reflected by a low gearing (0.04 times as on March 31, 2020). The company also has long-term investments (Rs.85.16 crore as on June 30, 2020) in equity, debt, hybrid market instruments etc, providing liquidity back-up. However, the investments remain susceptible to market risks. The company posted a sizeable fair value loss in investments in FY2020, though a portion of the same has been recovered in Q1 FY2021.

Credit challenges

Exposed to cyclicality of end-user industries and fluctuations in raw material prices; a nominal operating profit in Q1 FY2021 vis-a-vis a significant operating loss in FY2020 – ICL remains exposed to the fluctuations in the prices of raw materials like RPC as well as cyclicality of the end-user industries, leading to volatility in demand and realisations of the products like CPC, electrode carbon paste (ECP) and desiccated petroleum coke (DPC). Devaluation in ICL's inventory on account of a sharp decline in the market prices of raw materials and fall in realisations due to weakening of demand led to a sizeable operating loss of Rs. 40.61 crore in FY2020. However, the inventory loss did not continue in Q1 FY2021 as the high-cost inventory accumulated earlier had been mostly consumed in FY2020. After stabilisation of raw materials and finished goods prices, the company achieved a nominal operating profit of Rs. 0.12 crore in Q1 FY2021.

Exposed to forex risks as the company imports a portion of its raw material requirement – ICL is dependent on imported RPC for its Budge Budge plant. A sizeable portion of its raw materials is imported, which exposes ICL to the foreign currency exchange rate fluctuation risk. The company's formal hedging policy mitigates the same to an extent, but any adverse movement in exchange rates would affect ICL's profitability to the extent of its unhedged forex exposure**.**

Vulnerable to risks associated with Government regulations related to pollution control norms – The manufacturing operations of the company are exposed to Government regulations related to pollution norms as products like CPC, CEP, DPC and the raw materials (like RPC) used in the manufacturing process have significant environmental impact. ICRA notes that the quantum of RPC import into India has been curbed to reduce pollution. Any further stringent pollution control norms, detrimental to the company's operations, may adversely impact its business profile**.**

Liquidity position: Adequate

The company's liquidity is **adequate**, aided by a significant amount of cash and liquid investments. The company's nominal long-term debt repayment obligation and low fund-based working capital utilisation also support its liquidity, though its fund flow from operations is likely to remain at low-to-moderate level in the near-to-medium term.

Rating sensitivities

Positive triggers – An improvement in profitability on a sustained basis may lead to a revision in the long-term rating outlook to Stable from Negative.

Negative triggers – Weakening of the company's financial performance and liquidity position may lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the standalone financial statements of ICL

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), based in the US, 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 tonnes 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.

Key financial indicators

	FY2019 (Audited)	FY2020 (Audited)	Q1 FY2021 (Unaudited)
Operating Income (Rs. crore)	488.75	208.28	35.09
PAT (Rs. crore)	153.74	-36.46	4.75
OPBDIT/OI (%)	39.91%	-19.50%	0.34%
RoCE (%)	72.67%	-17.80%	-
Total Outside Liabilities/Tangible Net Worth (times)	0.21	0.16	-
Total Debt/OPBDIT (times)	0.08	-0.25	-
Interest Coverage (times)	135.57	-34.76	0.36

Source: India Carbon Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	Rating	FY2020	FY2019	FY2018
					15-Sep-20	21-Apr-20	05-Nov-19	10-Jul-18	-
1	Fund based facilities	Long Term	52.4	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A- (Stable)	-
2	Non-fund-based facilities	Short Term	47.6	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2+	-

Amount in Rs. crore

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	Cash Credit	NA	NA	NA	52.40	[ICRA]BBB+ (Negative)
NA	Bank Guarantee	NA	NA	NA	11.40	[ICRA]A2
NA	ILC/FLC	NA	NA	NA	28.30	[ICRA]A2
NA	Letter of Credit	NA	NA	NA	7.90	[ICRA]A2

Source: India Carbon Limited

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

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