

Mr. Shaurya Veer Himatsingka
Deputy Managing Director
India Carbon Ltd
Temple Chamber, 4th Floor
6, Old Post Office Street
Kolkata 700001

December 30, 2019

Confidential

Dear Sir,

Credit Rating of Bank Facilities

On the basis of recent developments including operational and financial performance of your company for FY19 (Audited) and H1FY20 (Unaudited), our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term bank facilities	20.53	CARE A-; Negative (A Minus; Outlook: Negative)	Reaffirmed and outlook revised from Stable
Short-term bank facilities	79.47	CARE A2+ (A Two Plus)	
Total facilities	100.00 (Rs. Hundred crore Only)		

2. Refer **Annexure 1** for details of rated facilities.

3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure 2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by January 3, 2020, we will proceed on the basis that you have no any comments to offer.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.

5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.

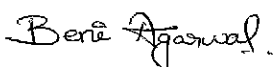
7. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

8. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.

9. CARE ratings are **not** recommendations to sanction, renew, disburse or recall any bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,
Yours faithfully,



Beni Agarwal
Analyst
beni.agarwal@careratings.com



Richa Bagaria
Senior Manager
richa.iain@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Limited)

Encl.: As above

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

DM

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Limited)

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.), 10A, Shakespeare Sarani, Kolkata - 700 071.
Tel: +91-33- 4018 1600 / 02 • Fax: +91-33- 4018 1603 • www.careratings.com • CIN-L67190MH1993PLC071691

Annexure 1
Details of rated facilities

1. Long-term facilities

1.A. Fund based Limit- Cash Credit

S. No.	Banker / lender	Amount	Remarks
1	UCO Bank	15.40	Sanctioned and tied up
2	IDBI Bank Ltd	0.50	Sanctioned and tied up
3	Axis Bank Ltd	1.35	Sanctioned and tied up
4	United Bank of India	3.28	Sanctioned and tied up
	Total	20.53	

(Rs. cr)

Total long-term Facilities (1A): Rs.20.53 crore

2. Short-term Facilities

2.A. Non-Fund Based Limit

S. No.	Banker / lender	Letter of Credit	Bank Guarantee	Letter of Credit / Bank Guarantee	Tenure as per sanction letter
1	UCO Bank	34.63	10.30		For LC: Usance period upto 180 days For BG: Period of guarantee is for 3 years including claim period
2	IDBI Bank Ltd	-	-	3.00	For LC: Usance period upto 180 days For BG: Period of guarantee is for 3 years including claim period
3	Axis Bank Ltd	2.50	1.10	-	For LC: Usance period upto 180 days For BG: Period of guarantee is for 12 months including claim period
4	United Bank of India	1.87	3.60	-	For LC: Usance period upto 180 days For BG: Period of guarantee is for 12 months including claim period
5	Proposed	22.47	-	-	
	Total	61.47	15.00	3.00	

Total short-term Facilities (2A): Rs.79.47 crore

Total Bank Facilities (1+2): Rs.100.00 crore

B

B.A

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.), 10A, Shakespeare Sarani, Kolkata - 700 071.
Tel: +91-33- 4018 1600 / 02 • Fax: +91-33- 4018 1603 • www.careratings.com • CIN-L67190MH1993PLC071691

Press Release
India Carbon Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long-term bank facilities	20.53	CARE A-; Negative (A Minus; Outlook: Negative)	Reaffirmed and outlook revised from Stable
Short-term bank facilities	79.47	CARE A2+ (A Two Plus)	Reaffirmed
Total facilities	100.00 (Rs. Hundred crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the Bank Facilities of India Carbon Limited (ICL) derive strength from the experienced promoters with long track record of operations, pioneer in setting up calcination plant in Asia, financial and technical support from USA based leading Calcined Petroleum Coke (CPC) player, Oxbow Calcining LLC, strategic location of the units, long standing relationship with reputed clientele, satisfactory capacity utilisation, strong financial performance in FY19 albeit deterioration witnessed in H1FY20 marked by operating loss due to subdued market condition and substantial decline in average realisation of CPC, robust liquidity position and capital structure with strong debt coverage indicators.

The ratings are, however, constrained by raw material availability with weak bargaining power with suppliers, volatility associated with the raw material and finished good prices, working capital intensive nature of operation, substantial dependence on the fortunes of the cyclical aluminium and graphite industry and forex fluctuation risk associated with import of Raw Petroleum Coke (RPC).

Outlook: Negative

The outlook has been revised from Stable to Negative in view of declining trend of CPC realisation and subdued demand scenario resulting in expected weak financial performance in FY20. The outlook shall be revised to stable in case the Company's performance improves significantly leading to turnaround in its operations.

Key Rating Sensitivities

Positive factors

- Reduction in inventory holding period below 60 days on a sustained basis.
- PBILDT margin going above 6% on a sustained basis would be a positive rating sensitivity.

Negative factors

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

5

93

B.A.

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Limited)

- Reduction of liquid investment below Rs.100 crore.
- Continued loss beyond envisaged level

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record of operations

The founders of ICL, Late Mr. P D Himatsingka and his son, were actively involved in India's freedom movement. Mr Rakesh Himatsingka, CMD is the third generation entrepreneur and an M. Tech. from BITS, Pilani. Mr Rakesh Himatsingka has over four decades of experience in the manufacturing & trading of CPC. He is duly supported by his son Mr Shaurya Veer Himatsingka, DMD who is an MBA from Carnegie Mellon University, Pennsylvania.

Pioneer in setting up calcination plant in Asia

Established in the year 1962, the plant in Guwahati of ICL was the first manufacturing plant of CPC in Asia. The Company is one of the leading players in the manufacturing of CPC, EPC and Tamping Paste with the facilities being located in the Eastern belt of India (Guwahati, Assam and Budge Budge, West Bengal).

Financial & technical support from USA based leading CPC player, Oxbow Calcining LLC

Oxbow holds 30.66% stake in the equity shares of ICL. Besides this, it has three qualified and experienced representatives in the Board of ICL, who provide technical support to ICL. Oxbow is one of the leading CPC player in USA.

Strategic location of the units

The Guwahati plant is located adjacent (within 300 m) to the Guwahati refinery of Indian Oil Corporation Limited (IOCL). Thus, the inward freight cost and lead time of RPC is almost negligible, providing an edge over competition. Budge Budge plant is located close to the port. As Budge Budge plant imports majority of its raw material requirement, proximity to port reduces the freight cost. Moreover, most of the end product users like aluminum, ferro alloy, graphite plants etc. are in the close vicinity of both the manufacturing plants.

Long standing relationship with reputed clientele, however, customer concentration risk remains

ICL supplies its end products mostly to aluminum, graphite and ferro alloys players. Being the first calciner in India, ICL has long standing relationship with most of the big players of Aluminum and graphite electrodes. These ensure regular inflow of orders.

Sales to top 5 customers accounted for ~95% of total sales in FY19 and ~93% of total sales in H1FY20. However, ICL sells majorly to reputed players having strong credit risk profile which reduces the counterparty credit risk.

Satisfactory Capacity Utilization of CPC

The capacity utilization of the company for its CPC division improved to 88% in FY19 as against 85% in FY18. Also, for Electrode Carbon Paste (ECP) and tamping paste, the utilization has improved from 24% in FY18 to 51% in FY19. This is because of higher demand enjoyed till Q3FY19. The same has started declining from Q4FY19 onwards. Thus, utilization of capacity has declined to ~82% for CPC and ~49% for ECP in H1FY20.

6

JP

BA

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Limited)

Strong financial performance in FY19 with significant deterioration in H1FY20

Revenue from operations have witnessed an increasing trend from Rs.339 crore in FY18 to Rs.471.65 crore in FY19 because of because of higher realisation of CPC and ECP. PBILDT level also increased substantially due to lower increase in raw material cost vis-à-vis increase in CPC realization. GCA improved significantly to Rs.155 crore from Rs.81 crore in FY18. Profits for the year also increased in FY19 to Rs. 153.71 crore due to increased PBILDT and reduced interest and finance charges.

In H1FY20, sales dropped to Rs.112 crore from Rs.297 crore in H1FY19 due to fall in sales realization and demand due to over-supply of CPC (post re-vamping of CPC production in China). The company incurred losses at PBILDT level amounting to Rs.21.6 crore and net losses to the tune of Rs.20.63 crore due to liquidation of high cost inventory at lower sales realization. Turnaround in operations through decline in raw material cost and steady realisation shall remain crucial from rating perspective.

Robust capital structure with strong debt coverage indicators of the company

Tangible Net Worth has increased due to higher PAT level in FY19 and stands strong at Rs.297.7 crore as on March 31, 2019. Overall gearing ratio improved from 0.4x as on March 31, 2018 to 0.05x as on March 31, 2019 and Sep.30, 2019 due to higher networth and reduced debt level. The total debt reduced from Rs.63 crore as on March 31, 2018 to Rs.15 crore as on March 31, 2019 (Rs.14 crore as on September 30, 2019). The interest coverage ratio is also highly comfortable at 58.85x in FY19 which is an increase from 25.79x in FY18. Total debt / GCA also remained highly comfortable at 0.1x as on March 31, 2019 (0.77x as on March 31, 2018).

Key rating weaknesses

Raw material availability, price volatility and weak bargaining power with suppliers

RPC is the major raw material for the production of CPC. The company sources RPC from domestic as well as International market (mostly from US and small portion from China). ICL's plant in Budge Budge being port-based, is dependent on import of RPC due to shortage of RPC supply in the domestic market coupled. In domestic market, ICL procures RPC from large domestic oil refineries (Indian Oil Corporation Ltd, Bongaigaon Refinery & Petroleum Ltd, Paradip Refinery, Numaligarh Refinery Ltd.). Hence, ICL has low bargaining power as the suppliers are large corporates in the industry. The price of RPC, being a crude oil derivative, is dependent on crude oil prices, which are highly volatile. Thus, the operating margin of the company remains susceptible to any sharp movement in the raw material prices and affected by weak bargaining power of ICL.

Working capital intensive nature of operation

The company's operating cycle has witnessed a sharp deterioration and the same has increased from 70 days in FY18 to 127 days in FY19. The deterioration is mainly on account of increase in the inventory holding period and also because of increased collection period. The inventory period has gone up because of stocking up of raw materials and finished goods in Q4FY19 due to high demand of CPC witnessed till Q3FY19. As the demand has subsided due to oversupply, slower inventory movement and stocking of inventory has



B.A.

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Limited)

resulted in higher inventory days. However, due to huge profits reaped in FY18 and FY19, the working capital utilization of the company remained low.

Substantial dependence on the fortunes of the aluminum, graphite and ferro alloys industry

Two grades of CPC are majorly used – i) Anode grade CPC used mainly in aluminium industry and ii) Graphite grade CPC used majorly in Graphite industry and in small percentage in ferro alloy industry. Around 80% of the world's CPC 3 CARE Ratings Limited Press Release production is used in the production of the Carbon Anodes in the Aluminium smelting process and hence production of the primary aluminium is one of the most important determinants of CPC demand and the growth of the CPC industry. However aluminium industry being cyclical in nature depends heavily on the health of the world economy. Thus, any slowdown in production and demand of the Aluminium can adversely affect the financial profile of the company.

Forex fluctuation risk associated with the import of RPC

The company is exposed to the risk of adverse movements in forex rates, mainly USD/INR rates which has shown increased volatility during the recent times. The company hedges its foreign exchange exposures to avoid the volatility in foreign exchange currency.

Prospects

Though the performance is expected to remain weak in FY20 due to high cost inventory, with low leverage and robust liquidity position the Company has sufficient flexibility to withstand the loss in FY20. The ability of the Company to turnaround the operations shall remain crucial.

Liquidity: Strong

The company has earned substantial GCA of Rs.155.5 crore in FY19 against negligible debt repayment obligation. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. In H1FY20, the company incurred cash loss of Rs.19.48 crore. However, as on September 30, 2019, ICL had surplus liquidity to the tune of Rs.175.8 crore with overall gearing ratio of 0.05x. Furthermore, CC utilization also remained low at 10% during last 12 months ending November 2019 providing liquidity comfort.

Analytical Approach: Standalone

Applicable criteria:

Criteria on assigning outlook and credit watch to Credit Ratings

CARE's Policy on Default Recognition

Financial ratios – Non-Financial Sector

CARE's methodology for manufacturing companies

CARE's criteria on Short term instruments

8

JP

B.A.

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Limited)

About the Company

India Carbon Limited (ICL) was established in 1961 by Late Mr. Prabhu Dayal Himatsingka and his son Late Mr. Bhagwati Prasad Himatsingka, in collaboration with USA based Oxbow Calcining LLC (Oxbow) (formerly Great Lakes Carbon LLC)- a leading player in the international calcined petroleum coke industry. ICL is a pioneer in setting up Calcination plant (Guwahati, Assam in 1962) in Asia.

Currently, ICL is engaged in the manufacturing of CPC (installed capacity 100,800 MTPA), ECP (installed capacity 19,500 MTPA) and Tamping Paste and Desiccated Petroleum Coke Powder (DPCP; installed capacity 45,000 MTPA) at its manufacturing facilities located in Guwahati (Assam) and Budge Budge (WB).

ICL is currently being managed by Mr. Rakesh Himatsingka, CMD (son of Late Mr. B P Himatsingka), and his son Mr. Shaurya Veer Himatsingka, DMD. The Board of directors consists of 11 members, with two from the promoters' family, four members representing Oxbow and remaining independent directors.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	338.99	471.65
PBILDT	98.34	177.97
PAT	79.31	153.71
Overall gearing (times)	0.40	0.05
Interest coverage (times)	25.79	58.85

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:

Media Contact

Mradul Mishra

Contact no. +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact

Name – Ms. Richa Bagaria

Contact no. +91-33-40181653

Email ID - richa.jain@careratings.com

Business Development Contact

Name: Lalit Sikaria

Contact no. : +91-33-40181607

Email ID : lalit.sikaria@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

B.A.

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Limited)

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.), 10A, Shakespeare Sarani, Kolkatta - 700 071.
Tel: +91-33- 4018 1600 / 02 • Fax: +91-33- 4018 1603 • www.careratings.com • CIN-L67190MH1993PLC071691

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

Annexure-1: Details of Facilities

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	20.53	CARE A-; Negative
Non-fund-based - ST-BG/LC	-	-	-	79.47	CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	20.53	CARE A-; Negative	-	1)CARE A-; Stable (19-Dec-18)	1)CARE BBB; Stable (08-Jan-18)	1)CARE BBB- (25-Oct-16)
2.	Non-fund-based - ST-BG/LC	ST	79.47	CARE A2+	-	1)CARE A2+ (19-Dec-18)	1)CARE A3+ (08-Jan-18)	1)CARE A3 (25-Oct-16)

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Limited)