

No. CARE/KRO/RL/2017-18/2105

Mr. Shaurya Veer Himatsingka

Deputy Managing Director

India Carbon Ltd.

'Temple Chamber' 4th Floor,

6, Old Post Office Street,

Kolkata – 700 001 (W.B.)

January 05, 2018

Confidential

Dear Sir,

Credit rating of bank facilities

Please refer to our rating letter No. CARE/KRO/RL/2017-18/2058 dated December 29, 2017, and your representation e-mail dated January 3, 2018.

Our Rating Committee has carefully reconsidered the representation made by you regarding the revision in rating assigned to the above mention bank facilities. The following ratings have been reviewed by our Rating Committee:

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities*	20.53 (reduced from 27.03)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from (CARE BBB-)
Short-term Bank Facilities*	79.47 (enhanced from 72.97)	CARE A3+ (A Three Plus)	Revised from (CARE A3)
Total	100.00 (Rupees Hundred Crore Only)		

*reclassification from long-term to short-term

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

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

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

Kindly revert as early as possible. In any case, if we do not hear from you by January 8, 2018, we will proceed on the basis that you have no comments to offer.

5. 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.
6. 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.
7. 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.
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 the concerned bank facilities.

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

Thanking you,

Yours faithfully,

Manisha Gupta

(Manisha Gupta)

Dy. Manager

manisha.gupta@careratings.com

Richa Bagaria

(Richa Bagaria)

Sr. Manager

richa.jain@careratings.com

Encl. : As above

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. 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.

In case of partnership/proprietary concerns, the rating/outlook assigned by CARE is 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.

**Annexure 1
Details of rated facilities**

1. Long-term Facilities

1.A Fund Based Limit – Cash credit

(Rs. Crore)

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	

2. Short-term Facilities

2.A Non-Fund Based Limits

(Rs. Crore)

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	-	Usance period upto 180 days
2	IDBI Bank Ltd	-	-	3.00	Usance period upto 180 days
3	Axis Bank Ltd	2.50	1.10	-	Usance period upto 180 days
4	United Bank of India	1.87	3.60	-	Usance period upto 180 days
5	Proposed	22.47	-	-	
	Total	61.47	15.00	3.00	

*Interchangeable

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

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Annexure 2
India Carbon Ltd

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long-term Bank Facilities*	20.53 (reduced from 27.03)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from (CARE BBB-)
Short-term Bank Facilities*	79.47 (enhanced from 72.97)	CARE A3+ (A Three Plus)	Revised from (CARE A3)
Total	100.00 (Rupees Hundred Crore Only)		

*reclassification from long-term to short-term

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of India Carbon Limited (ICL) takes into account the spurt in demand and realisation of CPC which is expected to lead to improved sales and profitability of the company. The sales realisation is expected to remain healthy in the medium term supported by reduced production of CPC by China and revival of demand from domestic end user industry.

The rating continues to 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, improvement in the financial risk profile in FY17 (refers to the period April 01 to March 31) and H1FY18, and strong clientele with long standing relationship. The ratings are, however, constrained by substantial dependence on the fortunes of the cyclical aluminium and graphite industry, with low bargaining power with suppliers, volatility associated with the raw material and finished good prices, working capital intensive nature of operation and forex fluctuation risk associated with import of Raw Petroleum Coke (RPC).

The ability of the company to improve profitability in the present industry scenario and managing working capital effectively are the key rating sensitivities.

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).

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

Oxbow Calcining LLC holds 30.66% stake in the equity shares of ICL. Besides this, it has four qualified and experienced representatives in the Board of ICL, who provide technical support to ICL. Oxbow Calcining LLC (OCL) owns and operates a calcination plant in USA.

Strategic location of the units of the Company

The Guwahati plant is located adjacent (within 300 m) to the Guwahati refinery of IOC. Thus the inward freight cost and lead time of raw petroleum coke (RPC) is almost negligible, providing an edge over competition. Budge Budge plant is located close to the port. Since the company imports majority of its raw material requirement, the same reduces the freight cost. Further, the company derives logistic advantage from the connectivity to the Indian railways through its private railway sidings located within its plant premises.

Moreover most of the end product users like aluminum, ferro alloy, graphite plants etc. are in the vicinity of both the manufacturing plants.

Long standing relationship with reputed clientele from diversified industry, 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. These ensure the regular inflow of orders. Further, the company sells majorly to reputed players having strong credit risk profile which on one hand reduces the counterparty credit risk and also exposes the company to client concentration risk on the other.

Improvement in financial risk profile in FY17 and H1FY18 marked by significant improvement in the cash accrual, capital structure and debt coverage indicators

The gross sales of the company de-grew y-o-y by 32.25% to Rs.139.60 crore in FY17 as compared to Rs.206.05 crore in FY16. The decline in sales was on account of lower production due to the low supply of RPC. PBILDT level decreased from Rs.8.13 crore in FY16 to Rs.5.77 crore in FY17 due to lower total revenue coupled with increase in employee cost. ICL's PAT improved significantly and stood at Rs.18.81 crore in FY17 (Rs.0.2 crore in FY16) on account of the refund of Rs.21.22 crore u/s 15(b) from sales tax (accumulated sales tax from 2000-01 till 2011-12) for the sales executed in Guwahati facility as per the supreme court order dated Feb. 29, 2016.

Net profit further improved to Rs.9.92 crore in H1FY18 (Rs.3.53 crore in H1FY17) on the total operating income of Rs.132.44 crore (Rs.82.27 crore in H1FY17).

The overall gearing ratio improved significantly from 1.23x as on March 31, 2016 to 0.11x as on March 31, 2017. The interest coverage ratio also improved substantially from 1.24 times in FY16 to 2.22 times in FY17 due to the lower interest cost as a result of the low utilization of working capital limits.

Key Rating Weaknesses

Profitability susceptible to volatility in RPC & CPC prices

The price of RPC, being a crude oil derivative, is dependent on crude oil prices, which are highly volatile. Over the last few years, the prices of raw materials have moved in tandem with that of the crude oil prices. Further, ICL has low bargaining power as the suppliers are large corporates in industry. 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. The price of the finished goods depends upon the demand from aluminium industry, graphite industry and to some extent on iron & steel industry. At present the demand

for aluminium has increased in the domestic market on account of lower production of both aluminium and CPC in China due to restriction imposed by Air Pollution and Control Law of China.

Working capital intensive nature of operation

As a result of the low bargaining power with both the customers and suppliers, ICL pays its creditors in advance vis-à-vis offering higher credit period for its customers resulting in higher operating cycle of 110-125 days. Further the company has to keep the inventory to ensure continuous production. The operating cycles, however have deteriorated marginally y-o-y from 110 days in FY16 to 118 days in FY17 due to the increase in inventory holding period and decline in the creditors period. The cash credit utilization was almost nil for the past 12 months ending October 2017.

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 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.

The consumption of aluminium is likely to grow at a CAGR of 3.5% during the next 2-3 years. The growth in consumption is likely to be driven by the user industries such as power, automobiles and construction. Furthermore, due to the short supply of CPC from China, a dominant player of CPC in the world, the demand for domestic CPC witnessed growth. Hence, CPC players are expected to reap the benefits of reduced supply and revived demand translated into sustained healthy realisations of CPC.

Analytical Approach: Standalone

Applicable criteria:

CARE's Policy on Default Recognition

Criteria on assigning Outlook to Credit Ratings

Financial ratios – Non-Financial Sector

Criteria for Short Term Instruments

Rating Methodology-Manufacturing Companies

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 Calcined Petroleum Coke (CPC; installed capacity 100,800 MTPA), Electrode Carbon Paste (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 12 members, with two from the promoters' family, four members representing Oxbow and remaining independent directors.

Handwritten initials/signatures

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	193.68	130.69
PBILDT	8.13	5.77
PAT	0.20	18.81
Overall gearing (times)	1.23	0.11
Interest coverage (times)	1.24	2.22

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

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:

Name: Richa Bagaria

Tel # 033-4018 1653

Mobile # 99034 70650

Email: richa.jain@careratings.com

About CARE Ratings:

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 credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. 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.

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Annexure-1: Details of Facilities

Name of the Instrument	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 BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	79.47	CARE A3+

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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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	20.53	CARE BBB; Stable	-	1)CARE BBB- (25-Oct-16)	-	-
2.	Non-fund-based - ST-BG/LC	ST	79.47	CARE A3+	-	1)CARE A3 (25-Oct-16)	-	-

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