CARE Ratings
Professional Risk Opinion

No. CARE/KRO/RR/2018-19/1398

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

January 16, 2019

Confidential

Dear Sir,

Review of Credit rating

Please refer to our letter dated December 13, 2018 on the captioned subject.

2. The rationale for the rating is attached as an ***Annexure - I.***
3. We request you to peruse the annexed documents 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 18, 2019, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

Bagaria

(Richa Bagaria)
Sr. Manager

Encl: As above

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CIN-L67190MH1993PLC071691

ANNEXURE I

Rating Rationale

India Carbon Limited

Ratings[1]

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	20.53	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short-term Bank Facilities	79.47	**CARE A2+ (A Two Plus)**	Revised from CARE A3+ (A Three Plus)
Total Bank Facilities	**100.00 (Rupees One Hundred crore Only)**		

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 Calcined Petroleum Coke (CPC) leading to significant improvement in the financial performance in FY18 (refers to the period from April 01 to March 31) and H1FY19 along with improved liquidity position of the company. The sales realisation is expected to remain healthy in the medium term supported by reduced production of CPC by China and significant increase in 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 CPC player, Oxbow Calcining LLC (Oxbow), strategic location of the units, long standing relationship with the reputed clientele from diversified industry, improving capacity utilisation of CPC, comfortable capital structure with strong debt coverage indicators and favourable industry scenario. The ratings are, however, constrained by substantial dependence on the fortunes of the aluminium, graphite and ferro alloys industry, raw material sourcing and weak bargaining power with suppliers, working capital intensive nature of operations and forex fluctuation risk associated with the import of Raw Petroleum Coke (RPC).

The ability of the company to maintain its profitability margin and any major debt funded capex/expansion impacting the liquidity and leverage position significantly shall be the key rating sensitivities.

Detailed description of the key rating drivers

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. Late Mr. P. D. Himatsingka (Masters in English from Presidency College, Kolkata) was also a member of the Constituent Assembly in 1948, and was one of the signatories to the Indian

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

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Constitution. In 1946, his son Mr. B. P. Himatsingka set up a plastic goods manufacturing unit in Kolkata. 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 a 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, Electrode Carbon Paste (ECP) 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

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. The company was formerly known as Great Lakes Carbon LLC. OCL is the subsidiary of Oxbow Calcining USA, Inc., engaged in mining and marketing of commodities.

Strategic location of the units of the Company

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. The company also operates railway siding which helps in easy transportation of CPC to customers.

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, although exposes the company to client concentration risk, however, reduces the counterparty credit risk to a great extent.

Raw material sourcing 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). The company's calciner in Budge Budge being port-based, ICL is dependent on import of RPC due to shortage of RPC supply in the domestic market coupled with increased demand of CPC in the domestic and global market.

In domestic market ICL procures RPC from large domestic oil refineries (mainly IOCL). 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.

Improving Capacity utilization of CPC

The average capacity utilization of ICL for its CPC division witnessed significant improvement from 60% in FY17 to 85% in FY18 on account of increased demand for CPC leading to higher production. However, in Q1FY19, the same reduced to 74% on account of reduced capacity utilisation in its Budge Budge unit.

Significant improvement in financial performance in FY18 and H1FY19

The financial performance witnessed substantial improvement in FY18 and H1FY19 with consistently increasing sales realisation of CPC vis-à-vis marginal increase in RPC purchase price. This led to substantial jump in ICL's PBILDT level from Rs.5.61 crore in FY17 to Rs.104.23 crore in FY18. ICL's PAT also increased significantly and stood at Rs.79.31 crore in FY18 (Rs.18.88 crore in FY17) on account of high PBILDT and low capital charge of the company. The company earned a GCA of Rs.81 crore in FY18 against nil term debt outstanding. The interest coverage ratio of ICL also witnessed significant improvement from 2.11x in FY17 to 27.34x in FY18 on account of low interest cost.

ICL earned a PAT of Rs.116.34 crore in H1FY19 (Rs.9.92 crore in H1FY18) on a total operating income of Rs.296.56 crore in H1FY19 (Rs.132.44 crore in H1FY18). The GCA of the company increased from Rs.22 crore in H1FY18 to Rs.117 crore in H1FY19.

Comfortable capital structure with strong debt coverage indicators

The capital structure of the company witnessed slight deterioration as on March 31, 2018 on account of company import of raw material leading to increase in buyer's credit as on March 31, 2018. The overall gearing ratio, though deteriorated, remained comfortable at 0.40x as on March 31, 2018 and improved significantly to 0.01x as on September 30, 2018. Furthermore, the debt coverage indicators continue to remain strong with TDGCA of 0.77x as on March 31, 2018.

Improved liquidity position of the company

The cash & cash equivalent of the company has increased from Rs.2 crore as on March 31, 2017 to Rs.39 crore as on March 31, 2018. The company also has investments in Mutual funds amounting to Rs.80.9 crore as on March 31, 2018 and Rs.113.34 crore as on September 30, 2018 which provides liquidity comfort. With a debt of Rs.3.3 crore as on September 30, 3018, the company enjoys strong financial flexibility. The average fund based working capital utilisation also remained low in the last twelve months ending September 2018.

Further, the company is not planning any capital expenditure in the short term. Hence, the cash profits are expected to be invested in Mutual funds and stay in the system providing liquidity.

Working capital intensive nature of operation

The company's operating cycle has witnessed a sharp improvement and the same has improved from 116 days in FY17 to 70 days in FY18. The improvement is on account of improvement in the collection period as well as the inventory holding period. The collection period has improved significantly from 52 days in FY17 to 15 days in FY18 on account of the demand-supply gap being created for CPC, wherein

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the demand is higher than the supply providing ICL a bargaining power for lower credit period for its customers as well as taking advance from them before delivering the goods. The inventory holding period also improved from 85 days in FY17 to 66 days in FY18.

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. 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.

Current favourable industry scenario

China's amended Air pollution and Control Law, which came into force from Jan.1, 2016 includes a restriction on the import, sale or use of higher- Sulphur petroleum coke which has resulted in tightening the supply of anode grade pet-coke for the aluminium industry. The stable global demand for aluminium coupled with shut down of production of CPC in China, led to increase in demand for CPC globally. The Indian Calciners are benefitting from reduced supply from China translated into firm realization of CPC without corresponding increase in the RPC price.

Prospects

The ability of the company to maintain its profitability margin while maintaining its capital structure and the future price trends in sales price realisation vis-à-vis key raw material prices are the key rating sensitivities.

Analytical Approach: Standalone

Applicable Criteria:

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Rating Methodology – Manufacturing Companies

Financial ratios – Non-Financial Sector

Criteria for Short Term Instruments

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About the Company

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 (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, and three members representing Oxbow.

Financial Performance

(Rs. crore)

Year ended/ As on March 31, Particulars	2016 (12 m, A)	2017 (12 m, A)	2018 (12 m, A)
Net Sales	1.92	1.28	3.38
Income from operations	192.01	128.81	338.99
PBILDT	6.45	4.04	98.34
Interest	6.58	2.66	3.81
Depreciation	1.45	1.26	1.48
PBT	0.11	1.93	102.41
PAT	0.20	18.88	79.31
Gross Cash Accruals	1.56	20.55	81.23
Financial Position			
Equity share capital	2.65	2.65	2.65
Tangible Networth	33.52	71.61	157.86
Capital Employed	74.53	86.36	234.29
Ratios			
Growth (%)			
Growth in total operating income	8.13	-32.92	163.18
Growth in PBILDT	35.75	-37.40	2331.66
Profitability (%)			
PBILDT margin	3.36	3.14	29.01
PAT margin	0.11	14.66	23.40
ROCE	8.46	44.73	71.17
RONW	0.61	55.29	75.99
Leverage ratios			
Debt Equity ratio	0.03	0.01	0.01
Overall Gearing ratio	1.23	0.08	0.40
Interest Coverage	0.98	1.52	25.79
Total debt/ GCA	26.41	0.29	0.77
Liquidity			
Current Ratio	1.42	2.68	1.75
Quick Ratio	0.81	1.61	1.24
Turnover			

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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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	20.53	CARE A-; Stable	-	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 A3+ (08-Jan-18)	1)CARE A3 (25-Oct-16)	-

Annexure-3: 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**	

Total Long Term Facilities (1A): Rs.20.53 crore

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 Short Term Facilities (2A): Rs.79.47 crore

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

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