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No. CARE/KRO/RL/2022-23/1115

Shri Vinod Kumar Agarwal
Chief Financial Officer
India Carbon Limited
Noonmati,

Guwahati
Assam 781020

July 01, 2022

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your Company for FY22, our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	35.00 (Enhanced from 15.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Long Term / Short Term Bank Facilities	50.00	CARE A-; Stable / CARE A1 (Single A Minus; Outlook: Stable / A One)	Assigned
Short Term Bank Facilities	3.00	CARE A1 (A One)	Assigned
Short Term Bank Facilities	98.30 (Enhanced from 39.30)	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Total Facilities	186.30 (Rs. One Hundred Eighty-Six Crore and Thirty Lakhs 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 July 01, 2022, we will proceed on the basis that you have no any comments to offer.

4. CARE Ratings Ltd. 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.

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[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

5. CARE Ratings Ltd. 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 Ratings Ltd. 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 Ratings Ltd. so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE Ratings Ltd. 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 Ratings Ltd. 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. Our 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.careedge.in for latest update on the outstanding rating.

9. CARE Ratings Ltd. 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,

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Encl.: As above

Disclaimer

The ratings issued by CARE Ratings Limited 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. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a 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 Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.
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Annexure 1

Details of Rated Facilities

1. Long Term Facilities

1.A. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	Axis Bank Ltd.	20.00	Cash Credit
2.	ICICI Bank Ltd.	10.00	Cash Credit
3.	UCO Bank	5.00	Cash Credit
	Total	**35.00**	

Total Long Term Facilities : Rs.35.00 crore

2. Short Term Facilities

2.A. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	Axis Bank Ltd.	2.00	LER
2.	ICICI Bank Ltd.	1.00	LER
	Total	**3.00**	

2.B. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	ICICI Bank Ltd.	39.00	LC
2.	Axis Bank Ltd.	37.90	Inland LC: Usance period upto 120 days; Import LC: Usance period upto 180 days
3.	UCO Bank	10.30	Performance/Financial guarantee
4.	UCO Bank	10.00	Letter of Credit (LC): On site Usance upto 360 days
5.	Axis Bank Ltd.	1.10	BG: Period of guarantee is for 12 months including claim period
	Total	**98.30**	

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Total Short Term Facilities : Rs.101.30 crore

3. Long Term / Short Term Facilities

3.A. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	Axis Bank Ltd.	50.00	WCDL
	Total	**50.00**	

The overall utilization and exposure of Axis Bank in the company will be capped at Rs.96.00 crore.

Total Long Term / Short Term Facilities : Rs.50.00 crore

Total Facilities (1.A+2.A+2.B+3.A) : Rs.186.30 crore

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Draft Press Release
India Carbon Limited

Ratings

Facilities/ Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	35.00 (Enhanced from 15.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Long Term / Short Term Bank Facilities	50.00	CARE A-; Stable / CARE A1 (Single A Minus; Outlook: Stable/ A One)	Assigned
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Short Term Bank Facilities	98.30 (Enhanced from 39.30)	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Total Bank Facilities	**186.30 (₹ One Hundred Eighty-Six Crore and Thirty Lakhs Only)**		

** Details of instrument/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 significant improvement in the financial performance of the company over the last two years after witnessing moderation in FY20 (refers to the period April 1 to March 31) due to the subdued industry scenario. The sharp recovery in the profitability is primarily due to the significant increase in gross margin. Further, the increased cash accruals with nil debt repayment and no material capex undertaken in the recent past have led to significant build-up of surplus funds thereby further strengthening the liquidity profile.

The ratings continue to draw strength from the experienced promoters with long track record of operations, pioneer in setting up calcination plant in Asia, financial support from USA based leading Calcined Petroleum Coke (CPC) player, Oxbow Calcining LLC and long-standing relationship with reputed clientele. The ratings also derive strength from the satisfactory capacity utilisation along with healthy net worth base leading to robust capital structure and strong debt protection metrics. The ratings also take into account the strategic location of the Guwahati unit which reduces the inward freight cost. Further, the Guwahati plant is entitled to GST refunds (29% of IGST) under North East Industrial and Investment Promotion Policy, 2017 for a period of 10 years till FY27. The ratings, however, continue to be constrained by 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 user industries which are cyclical in nature due to which the profitability and cash flows of the company remained highly volatile. The rating also takes into account the forex fluctuation risk associated with import of Raw Petroleum Coke (RPC), and regulatory risks.

<u>Rating Sensitivities</u>

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Reduction in working capital cycle below 100 days on a sustained basis.
- Increase in scale of operation on a sustained basis while maintaining profitability leading to gross cash accruals (GCA) of above Rs.150 crore

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in EBIDTA margin on a sustained basis along with reduction of liquid investment below Rs.100 crore.
- Significant stretch in working capital cycle on a sustained basis

Detailed description of the key rating drivers AJ

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[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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 1961, 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 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. Oxbow is one of the leading CPC players 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), ICL's main supplier. Thus, the inward freight cost and lead time of RPC is almost negligible, providing an edge over competition. Further, under the North East Industrial Development Scheme (NEIDS), 2017, the Guwahati plant is entitled to GST refunds (29% of IGST). Budge Budge plant, though located close to the port, has locational disadvantage in terms of higher transportation cost vis-à-vis other port-based CPC plants. Since the unit imports majority of its raw material requirement, the location of the plant remains important from freight cost perspective.

Long standing relationship with reputed clientele from diversified industry, with lower customer concentration risk

ICL supplies its end products mostly to aluminium, graphite and ferro alloys players. Being the first calciner in India, ICL has long standing relationship with most of the big players of aluminium and graphite electrodes. These ensure regular inflow of orders. Sale to graphite industry was 60% of total sales in FY18 and FY19, which reduced significantly to 12% in FY20 due to subdued demand as well as high stock holding of CPC by the graphite industry. The inventory position started normalizing and the company started receiving orders from them since Q2FY21. Hence, in FY21 and FY22, sale to graphite industry increased considerably to 47% and 52% respectively. Sales to top 5 customers accounted for ~93% of total sales in FY22 vis-à-vis ~84% of total sales in FY21. However, ICL sells majorly to reputed players having strong credit risk profile which reduces the counterparty credit risk.

Satisfactory capacity utilization

The overall capacity utilization of CPC, the primary product, increased from ~66% in FY21 to 79.28% in FY22 on account of increased demand with resumption of operations after lockdown. However, the capacity utilization remained low at 56% in Guwahati plant in FY22 as the plant was closed for period of 2 months (May-June) due to maintenance of the plant in Q1FY22.

Improvement in financial performance in FY22

The company's operating income increased significantly by 132% y-o-y to Rs.456.12 crore in FY22 from Rs.196.25 crore in FY21 due to increased sales realization of CPC. A steep increase in price differential between the selling price and input cost resulted in operating profit of Rs.99.66 crore in FY22 as against Rs. 22.24 crore in FY21. Along with this, gain on fair valuation of investment in mutual fund amounting to Rs.10.30 crore resulted in profit before tax of Rs.116.27 crore in FY22 vis-à-vis Rs. 52.20 crore in FY21. Accordingly, the company achieved PAT of Rs.81.35 crore in FY22 (Rs.52.92 crore in FY21). The company earned GCA of Rs.98.04 crore as against nil debt repayment obligations in FY22.

Robust capital structure with healthy net worth base and low debt position

The capital structure of the company remained robust. The overall gearing ratio of the company though declined remained comfortable at 0.13x as on March 31, 2022 vis-à-vis 0.05x as on March 31, 2021 mainly due to increase in working capital borrowings. The total debt increased to Rs.57.99 crore as on March 31, 2022 from Rs. 17.86 crore as on March 31, 2021 mainly due to increase in working capital borrowings on the back of increase in the scale of operation and procurement price of raw materials.

Going forward, overall gearing ratio is expected to remain robust with no major debt funded capex plans in near term.

Key Rating Weaknesses

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Profitability susceptible to volatility in RPC & CPC prices 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. In domestic market, ICL procures RPC from large domestic oil refineries (IOCL, Bongaigaon Refinery & Petroleums 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 operations
The company's operations are working capital intensive due to high inventory holding requirements. The inventories have increased considerably from Rs.60.34 crore as on March 31, 2021 to Rs.180.70 crore as on March 31, 2022 due to high value of the stocks. However, the company's operating cycle has improved in FY22 to 138 days (159 days in FY21) mainly due to stretching payment to creditors and timely realization from the debtors.

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 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. In addition, the Company is always exposed to the risk of imported raw material upon arrival not conforming to expectations or to the specifications, which can lead to higher consumption and/or lower price realization.

Exposure to risks associated with Government regulations related to pollution control norms
Since pet coke is considered a pollutant and has been debated over from time to time the operations of the company are exposed to regulatory risks. Any changes in the regulatory framework such as duties or quotas on the import of raw material and pollution norms might have a significant impact on the operating performance of the company.

Liquidity: Strong
The company has achieved cash profit of Rs.98.04 crore as against nil debt repayment obligation in FY22. Its unutilized bank lines and aggregate funds of Rs.221.31 crore (in equity, mutual funds, and cash & bank balance) are more than adequate to meet its incremental working capital needs over the next one year. The average utilization of fund based limits stood low at around 11% for last 12 months ended May 31, 2022. The company has long-term investments in equity, debt, hybrid market instruments etc, providing liquidity cushion. However, the investments remain susceptible to market risks. The company posted fair value gain of Rs.10.30 crore in investments in FY22.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non- financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
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

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(Guwahati, Assam in 1962) in Asia. Currently, ICL is engaged in the manufacturing of CPC (installed capacity 100,800 MTPA), ECP (installed capacity 13,360 MTPA) and Tamping Paste 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 (including two alternative members) and remaining independent directors.

Brief Financials (Rs. crore)	FY21 (A)	FY22(Ab)	2MFY23
Total operating income	196.25	456.12	NA
PBILDT	22.24	99.66	NA
PAT	52.92	81.35	NA
Overall gearing (times)	0.05	0.13	NA
Interest coverage (times)	26.21	92.27	NA

A: Audited; Ab: Abridged; NA: Not Applicable

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	35.00	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	98.30	CARE A1
Fund-based - LT/ ST-Working Capital Demand loan		-	-	-	50.00	CARE A-; Stable / CARE A1
Fund-based - ST-Others		-	-	-	3.00	CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	35.00	CARE A-; Stable	-	1)CARE BBB+; Stable (07-Oct-21)	1)CARE BBB+; Stable (30-Sep-20)	1)CARE A-; Negative (06-Jan-20)
2	Non-fund-based - ST-BG/LC	ST	98.30	CARE A1	-	1)CARE A2+ (07-Oct-21)	1)CARE A2+ (30-Sep-20)	1)CARE A2+ (06-Jan-20)
3	Fund-based - LT/ ST-Working Capital	LT/ST*	50.00	CARE A-; Stable /				

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	Demand loan			CARE A1				
4	Fund-based - ST-Others	ST	3.00	CARE A1				

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure-4: Complexity level of various instrument rated for this category

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT/ ST-Working Capital Demand loan	Simple
3	Fund-based - ST-Others	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please click here

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

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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.

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

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