

May 5, 2010

CARE ASSIGNS 'PR1+' RATING TO THE STD/CP PROGRAMME OF HIMADRI CHEMICALS & INDUSTRIES LTD**Rating Assigned**

Instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Short Term Debt [including Commercial Paper]*	100.0	PR1+ [PR One Plus]	Assigned
Total Instruments	100.0		

by earmarking fund-based working capital limit*Rating Rationale**

The rating draws strength from long & satisfactory track record of the company with leadership position in the domestic coal tar pitch market, established experience of the promoters, absence of substitute products leading to insignificant competition, good & reputed clientele, strategic location of the plant, improving operational efficiency due to superior in-house technology, various forward integration initiatives taken by the company (including foray into carbon black business), comfortable financial position, equity infusion by BAIN capital and power sale providing alternate source of revenue. The rating also factors in risks associated with implementation of large ongoing projects including achievement of financial closure, proposed increase in the level of borrowings, complete dependence on the fortune of aluminium & tyre sectors which are cyclical and stringent pollution norms for carbon black (CB) industry. Successful commissioning of the ongoing projects, ability to sustain the profitability level and successful performance in the carbon black industry will remain the key rating sensitivities.

Company Profile

HCIL, incorporated in 1987, was promoted by Choudhary family of Kolkata comprising four brothers. Shri D.P. Choudhary (eldest brother) is the Chairman of the company. It is the largest manufacturer of Coal Tar Pitch (CTP) in India and enjoys around 70% market share of domestic CTP market.

HCIL is engaged in production of CTP (through distillation of coal tar), a carbon product used in the production of aluminium and graphite applications. The company sells up to 70-75% of the CTP produced to aluminium producers and the balance 25-30% to graphite manufacturers. The distillation of coal tar into CTP generates by-products like naphthalene and creosote oil (substitute of CBFS), which are key raw materials for production of Sodium Naphthalene Formaldehyde (SNF) & Carbon Black (CB) respectively. Accordingly, as part of forward integration initiative, HCIL has forayed into manufacturing of SNF and CB.

Currently, the company is in expansion mode and implementing few projects in phases for forward integration aggregating Rs.908.1 crore which is proposed to be financed at a debt-equity ratio of around 1.7:1. There was an equity infusion of Rs.252.4 crore by Bain Capital India Investments Ltd, which is proposed to be utilised for the project.

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

HCIL earned PBILDT of Rs.111.8 crore and PAT (after defd. tax provision) of Rs.46.8 crore on net sales of Rs.375.5 crore in FY09. Net sales increased at a CARG of around 29.3% over the last three years. During the same period, PBILDT increased at a higher CARG of 40.2%, because of the company's various R&D measures resulting in higher feedstock yield and lower fuel cost. Even then, PBILDT level and margin declined in FY09 from FY08 due to loss on inventory valuation. Fall in PBILDT & higher capital charge coupled with foreign exchange loss led to fall in PAT and GCA in FY09 over FY08. However, GCA was satisfactory vis-à-vis scheduled debt repayment in FY09.

Both long-term debt equity & overall gearing ratios have been comfortable as on the last three account closing dates. HCIL's liquidity position was adequate as reflected in the current ratio as on the last few account closing dates.

The performance of the company for 9MFY10 improved substantially and was satisfactory, as compared to the corresponding period of the previous year.

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