

July 20, 2010

CARE ASSIGNS 'CARE AA-' RATING TO THE PROPOSED NCD ISSUE OF HIMADRI CHEMICALS & INDUSTRIES LTD. & REAFFIRMS THE RATING ASSIGNED TO OUTSTANDING ISSUES

Rating Assigned

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	209.0	'CARE AA- ' (Double A minus)	Reaffirmed
Short-term Bank Facilities	265.0	'PR1+' (PR One plus)	Reaffirmed
Total Facilities	474.0		
Instruments			
Non Convertible Debenture	100.0	'CARE AA- ' (Double A minus)	Assigned
Non Convertible Debenture	100.0	'CARE AA- ' (Double A minus)	Reaffirmed
Short Term Debt [including Commercial Paper]*	100.0	PR1+ [PR One Plus]	Reaffirmed
Total Instruments	300.0		

**by earmarking fund-based working capital limit*

Rating Rationale

The ratings draw strength from long & satisfactory track record of the company with leadership position in the domestic coal tar pitch market, experience of the promoters, absence of substitute products, reputed clientele, superior in-house technology leading to better operational efficiency, forward integration initiatives taken by the company, improving & comfortable financial position and alternate source of revenue through sale of power. The ratings also factor in risks associated with implementation of large ongoing projects, proposed increase in the level of borrowings, complete dependence on the fortune of aluminium & tyre sectors which are cyclical and pollution hazardness nature of the major industry segments. 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.

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

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. HCIL earned PBILDT of Rs.182.7 crore (Rs.111.8 crore in FY09) and PAT (after defd. tax provision) of Rs.107.3 crore (Rs.46.8 crore in FY09) on net sales of Rs.505.9 crore (Rs.375.5 crore in FY09) in FY10. GCA was satisfactory vis-à-vis scheduled debt repayment in FY10.

Both long-term debt equity & overall gearing ratios improved substantially as on Mar.31, 2010 due to due to infusion of equity by Bain Capital, accretion of profits to reserve and schedule repayment of term loan. HCIL's liquidity position was adequate as reflected in the current ratio as on Mar.31, 2010.

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CARE 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.

Disclaimer

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