

Press Release
Hi Tech Chemicals Private Limited

November 29, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs. 91.00 Cr.
Long Term Rating	ACUITE BBB+ /Stable (Upgraded from BBB/Stable)
Short Term Rating	ACUITE A2 (Upgraded from A3+)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB+**' (**read as ACUITE triple B plus**) from '**ACUITE BBB**' (**read as ACUITE triple B**) and short term rating to '**ACUITE A2**' (**read as ACUITE A two**) from '**ACUITE A3+**' (**read as ACUITE A three plus**) to Rs. 91 crores bank facilities of Hi-Tech Chemicals Private Limited (HCPL). The outlook is '**Stable**'.

The rating upgrade is on account of significant improvement in top-line of the company driven by strong demand for Continuous Casting Refractory (CCR) coupled with increase in profit levels thereby leading to improved cash accruals. The rating upgrade also factors in better capacity utilization and healthy order book position providing adequate revenue visibility. Moreover, the upgrade also factors in improvement in financial risk profile marked by modest net worth position, comfortable gearing and comfortable debt protection metrics.

Hi-Tech Chemicals Private Limited was incorporated in 1986 by Mr. Somesh Chandra Bose and Mr. Ashok Kumar Agarwal. Currently the company is headed by Mr. Raj Kumar Agarwal, Ms. Prabha Agarwal, Mr. Ranjit Kumar Bagchi and Mr. Rahul Agarwal. The company is engaged in manufacturing of refractories and ceramic items used in steel melting, continuous casting process and blast furnaces of integrated steel plants.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of HCPL to arrive at the rating.

Key Rating Drivers

Strengths

• **Experienced management and long track record of operations**

Established in 1986, Hi-Tech Chemicals Private Limited (HCPL) has a long operational track record of more than three decades in the refractory industry. The key director, Mr. Raj Kumar Agarwal has vast experience of over three decades in the manufacturing of foundry chemicals, refractories and other products. Acuité believes that the promoters' extensive experience will benefit the company going forward resulting in steady growth in the scale of operations.

• **Significant growth in revenue and healthy order book position**

HCPL has achieved revenues of Rs 237.51 crores in FY 2019 as compared to revenues of Rs. 155.25 crores in FY18, thereby registering a y-o-y growth of 53 per cent. The growth in top line is on account of volume growth in Continuous Casting Refractory (CCR) driven by demand from steel companies and improved capacity utilization. The capacity utilization of the company significantly increased to meet the growing demand of the steel sector. The capacity utilization for their key product, increased from 46 per cent in FY'2018 to 81 per cent in FY'2019. The other products have also witnessed a similar

growth. Moreover, the company has achieved revenues of around Rs. 159.73 crore till October 2019 (Provisional). In addition to this, the company has a healthy order book position as on 31st October, 2019 to the tune of Rs. 204 crores. Out of this, orders amounting Rs. 145.37 crores are expected to be executed by 31st March 2020. Acuité expects that the scale of operations of the company to improve steadily over the medium term backed by their order book and steady demand for their products.

- **Healthy relationship with reputed Customers and suppliers**

The company has built strong relationship of more than 25 years with reputed domestic customers, namely, Tata Steel Limited, Visakhapatnam Steel Plant (RINL) and Steel Authority of India Limited (SAIL). Also, it has a relationship of 9 years with Sheffield Hi-Tech Refractories (Germany). HCPL has established relationship of more than 10 years with suppliers, namely, Hindalco Industries Limited, Almatis Alumina Private Limited, Golchha Enterprises Private Limited, Carborundum Universal Limited and Orient Abrasives Limited. Acuité believes the long track record has helped HCPL to establish healthy relationship with suppliers and reputed customers and ensure repeat orders.

- **Healthy financial risk profile**

The company's financial risk profile is marked by modest networth, comfortable gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs. 93.01 crores as on FY2019 from Rs. 77.69 crores as on FY2018 due to retention of profits. Gearing of the company stood comfortable at 0.80 times as on FY2019 as against 0.81 times as on FY2018. The debt of Rs.74.46 crore consists of long term debt of Rs.5.98 crore and working capital borrowing of Rs.58.97 crore and current maturity of term loan of Rs.0.30 crore and unsecured loan of Rs.9.21 crore as on FY2019. The debt protection metrics of the company is marked by Interest Coverage Ratio at 6.42 times as on FY2019 as against 4.15 times as on FY2018 and the Debt Service Coverage Ratio stood comfortable at 2.78 times as on FY2019 as against 1.40 times as on FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.31 times as on as on FY2019 as against 0.26 times as on FY2018. Acuité believes that going forward the financial risk profile of the company will remain comfortable backed by steady accruals and in absence of any major debt funded capex plans.

Weakness

- **Working capital intensive nature of operations**

The working capital intensive nature of operations is marked by high Gross Current Assets (GCA) of 218 days in FY2019 as compared to 232 days in FY2018. The GCA days are high due to high debtor period which is at 145 days in FY2019 as compared to 144 days in FY2018. The debtor days are high due to longer realization period from customers as performance guarantees are applied to the products. Further, the GCA days are high due to moderate inventory days at 81 in FY2019 as compared to 102 days as on FY2018. These high inventory days are mainly due to the process of ageing of raw materials which leads to improvement in the quality of the finished products. Acuité believes that the company's ability to manage the working capital will be key rating sensitivity.

Rating Sensitivity

- Improvement in the scale of operation while maintaining profitability margin
- Working capital management in operations

Material Covenant

None

Liquidity Profile

The company's liquidity is adequate marked by moderate net cash accruals of Rs.22.99 crores in FY2019 as against long term debt repayment of Rs.0.30 crores over the same period. The current ratio stood at 1.47 times as on FY2019 as compared to 1.23 times as on FY2018. The fund based limit remains utilised at 80 percent over the twelve months ended June, 2019. The cash and bank balances of the company stood at Rs. 0.14 crores as on FY2019 as compared to Rs. 0.18 as on FY2018. However, the

company's operations are working capital intensive as reflected by high Gross Current Assets (GCA) of 218 days in FY2019 as against 232 days in FY2018. Acuité believes that going forward the company will maintain healthy liquidity position backed by steady cash accruals.

Outlook: Stable

Acuité believes that the outlook on HCPL will remain 'Stable' over the medium term on account of vast experience of the promoters, long track record of operations and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenues and shows improvement in working capital intensity. Conversely, the outlook may be revised to 'Negative' in case of further elongation in their working capital cycle or deterioration of financial risk profile and stretch in liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	237.51	155.25	124.97
EBITDA	Rs. Cr.	34.90	24.71	18.65
PAT	Rs. Cr.	15.35	7.54	2.99
EBITDA Margin	(%)	14.69	15.92	14.93
PAT Margin	(%)	6.46	4.85	2.39
ROCE	(%)	17.34	11.10	19.97
Total Debt/Tangible Net Worth	Times	0.80	0.81	0.85
PBDIT/Interest	Times	6.42	4.15	2.63
Total Debt/PBDIT	Times	2.11	2.55	3.20
Gross Current Assets (Days)	Days	218	232	231

Status of non-cooperation with previous CRA (if applicable)

CRISIL, vide its press release dated May 21, 2019 had denoted the rating of Hi-Tech Chemicals Private Limited as 'CRISIL BB+/Stable/A4+; ISSUER NOT COOPERATING'

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition- <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
11-Jan-2019	Cash Credit	Long Term	40.00 (enhanced from Rs. 15.00 crores)	ACUITE BBB/Stable (Reaffirmed)
	Cash Credit	Long Term	25.00 (enhanced from Rs. 5.00 crores)	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	10.50	ACUITE BBB/Stable (Assigned)

	Letter of Credit	Short Term	7.00	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	4.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	2.50	ACUITE A3+ (Assigned)
03-Jan-2019	Cash Credit	Long Term	15.00	ACUITE BBB/Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BBB+/Stable (Upgraded from BBB/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB+/Stable (Upgraded from BBB/Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE BBB+/Stable (Upgraded from BBB/Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A2 (Upgraded from A3+)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A2 (Upgraded from A3+)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A2 (Upgraded from A3+)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A2 (Upgraded from A3+)

Contacts

Analytical	Rating Desk
Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-6620 1203 pooja.ghosh@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Kaustav Saha Senior Rating Analyst- Rating Operations Tel: 033-6620-1211 kaustav.saha@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.