**Press Release**

# Hi Tech Chemicals Private Limited

March 23, 2021

**Rating Upgraded**

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|---|---|
| **Total Bank Facilities Rated*** | Rs.114.00 Cr. |
| **Long Term Rating** | ACUITE A-/Stable (Upgraded) |
| **Short Term Rating** | ACUITE A2+ (Upgraded) |

** Refer Annexure for details*

## Rating Rationale

Acuité has upgraded the long term rating from **'ACUITE BBB+' (read as ACUITE triple B plus)** to **'ACUITE A-' (read as ACUITE A minus )** and the short term rating from **'ACUITE A2' (read as ACUITE A two)** to **'ACUITE A2+' (read as ACUITE A two plus )** on the Rs.114 Cr bank facilities of Hi-Tech Chemicals Private Limited (HTCPL). The outlook is **'Stable'**.

The rating upgrade is driven by an improvement in the overall business risk profile of the company marked by higher profitability and cash accruals arising from improved realizations as well as better cost efficiencies. The rating upgrade also factors in the healthy financial risk profile of the company characterized by comfortable leverage and debt coverage indicators. These strengths are partly offset by the working capital intensity in HTCPL's operations and the cyclicality in the end user industry.

## About the company

Incorporated in 1986, Hi-Tech Chemicals Private Limited (HTCPL) is a Jamshedpur based company, currently headed by Mr. Raj Kumar Agarwal, Mrs. Prabha Agarwal, Mr. Rahul Agarwal, Mr. Bikash Nandi, Mr. Rabindra Nath Das, and Mr. Jai Kumar Jain. The company is engaged in the manufacture of refractories and ceramic items used in steel melting, continuous casting process and blast furnaces of integrated steel plants. The finished products include various Nozzlex Compound, Slag Arresting Dart, Slide Gate refractory, Pre-cast & monolithic, Tap Hole Clay & Trough Mass, CCR Refractory supplied and exported to reputed clients like Tata Steel Ltd., RINL- Visakhapatnam, ArcelorMittal Nippon Steel India Limited, Sheffield Hitech Refractory (Germany), only to name a few.

## Analytical Approach

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

## Key Rating Drivers

### Strengths

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

HTCPL has a long operational track record of more than three decades in the refractory industry. The key promoters, Mr. Raj Kumar Agarwal and Mrs. Prabha Agarwal have significant experience in the production of foundry chemicals, refractories and other products. Acuité believes that the promoters' extensive understanding and expertise in refractory products will support the company's growth plans going forward.

- **Association with reputed clientele and suppliers and strong order book**

The company has built strong relationship of more than 26 years with the major integrated steel players such as Tata Steel Limited, Essar Steel India Limited, Visakhapatnam Steel Plant (RINL), ArcelorMittal Nippon Steel India Limited and Steel Authority of India Limited (SAIL). Also, it has a relationship of around 10 years with an overseas supplier - Sheffield Hi-Tech Refractories (Germany). These agreements with reputed clientele have led to lower off-take risk and ensures revenue visibility over the medium term. The company has an order book position as on 31st January, 2021 to the tune of about Rs.111 Cr. HTCPL also has established long term relationships with suppliers like Hindalco Industries Limited, Almatis Alumina Private Limited, Golchha Enterprises Private Limited, Carborundum Universal Limited and Orient Abrasives Limited. Acuité believes that HTCPL's long and healthy relationships with suppliers and reputed customers will continue to strengthen its business position.

- **Steady revenues and operating margins**

HTCPL has achieved revenues of Rs.261.31 Cr in FY2020 as compared to revenues of Rs.237.51 Cr in FY2019, thereby registering a y-o-y growth of 10.02 per cent. The company has achieved revenues of around Rs.160.94 Cr till December 2020 (Provisional). The operating margin rose to 15.25 per cent as on 31st March, 2020 from 14.69 per cent as on 31st march, 2019. The PAT margin of the company increased to 8.89 per cent in FY2020 from 6.46 per cent in FY2019. This growth is due to significant improvement in top-line and reduction in prices of imported raw materials like alumina, graphite, chromite. The Return on Capital Employed (ROCE) of the company stood comfortable at 18.64 per cent as on FY2020. The average realization from products (CCR, Nozzles X compound, Precast, Spray Mass, Tap Hole Clay) have improved over the years with maximum increment in Slide Gate refractories after the successful completion of the companies Advanced & New generation Slide Gate refractory project in FY'21.

- **Healthy financial risk profile**

The company's healthy financial risk profile is marked by a relatively healthy networth, comfortable gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs.116.28 Cr as on March 31, 2020 from Rs.93.01 Cr as on March 31, 2019 due to accretion of reserves. Gearing of the company stood comfortable at 0.77 times as on March 31, 2020 as against 0.80 times as on March 31, 2019. The debt of Rs.89.96 Cr mainly consists of working capital borrowing of Rs.50.03 Cr, term loan from bank of Rs.28.92 Cr, unsecured loans of Rs.10.71 Cr and current obligations of Rs.0.30 Cr as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood comfortable at 1.14 times as on March 31, 2020 as against 1.30 times as on March 31, 2019. The healthy debt protection metrics of the company is marked by Interest Coverage Ratio at 7.73 times as on March 31, 2020 and Debt Service Coverage Ratio at 6.14 times as on March 31, 2020. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.34 times as on March 31, 2020. Acuité believes that the financial risk profile of the company will remain healthy backed by steady accruals and no major debt funded capex plans over the near to medium term.

## Weakness

- **Working capital intensive nature of operations**

The working capital intensive nature of operations is marked by high albeit reduced Gross Current Assets (GCA) of 189 days in FY2020 as compared to 218 days in FY2019. The GCA days are high due to high debtor period at 110 days in FY2020 as compared to 145 days in FY2019. The company has higher realization period from customers as performance guarantees are applied to the products. Further, the inventory holding is moderate at 88 days in FY2020 as compared to 81 days as on FY2019, due to raw materials ageing, which leads to improvement in the quality of the finished products. Acuité believes that the working capital operations of the firm will improve with the recently completed capital expenditure programme which will reduce the delivery lead time from 45-60 days to 15-20 days in near future.

## Rating Sensitivity

- Any downturn in the end user, i.e. steel industry and its impact on HTCPL's revenues
- Any fresh debt funded expansion programme
- Elongation in working capital cycle

## Material Covenant

None

## Liquidity Profile: Adequate

The company's liquidity is adequate marked by net cash accruals of Rs.30.27 Cr in FY2020 as against a modest long term debt repayment of Rs.0.30 Cr over the same period. The current ratio also stood comfortable at 1.57 times as on FY2020 as compared to 1.45 times as on FY2019. The fund based limit remains utilized at around 48 per cent, although the non-fund based limit remains fully utilized over the seven months ended January, 2021. While the company's operations are working capital intensive as reflected by high Gross Current Assets (GCA) of 189 days in FY2020, it has declined by a moderate extent as compared to 218 days in FY2019. Acuité believes that the company will maintain a healthy liquidity position backed by increasing net cash accruals in the near to medium term.

## Outlook: Stable

Acuité believes that the outlook on HTCPL will remain 'Stable' over the medium term on account of the experience of the promoters, long track record of operations and strong business risk profile. The outlook may be revised to 'Positive' in case the company witnesses a material improvement in its working capital management while increasing its scale of operations. Conversely, the outlook may be revised to 'Negative' in case of any significant elongation in its working capital management leading to deterioration of its gearing and liquidity position.

## About the Rated Entity - Key Financials (Standalone)

| | Unit | FY20 (Actual) | FY19 (Actual) |
|---|---|---|---|
| Operating Income | Rs. Cr. | 261.31 | 237.51 |
| PAT | Rs. Cr. | 23.22 | 15.35 |
| PAT Margin | (%) | 8.89 | 6.46 |
| Total Debt/Tangible Net Worth | Times | 0.77 | 0.80 |
| PBDIT/Interest | Times | 7.73 | 6.42 |

## Status of non-cooperation with previous CRA

Not Applicable

## Any other information

Not Applicable

## Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm

## Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

## Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Crore) | Ratings/Outlook |
|---|---|---|---|---|
| 13-Jan-20 | Cash Credit | Long term | 40 | ACUITE BBB+/Stable (Reaffirmed) |
| | Cash Credit | Long term | 25 | ACUITE BBB+/Stable (Reaffirmed) |
| | Term Loan | Long term | 10.5 | ACUITE BBB+/Stable (Reaffirmed) |
| | Term Loan | Long term | 21 | ACUITE BBB+/Stable (Assigned) |
| | Letter of Credit | Short Term | 7 | ACUITE A2 (Reaffirmed) |
| | Letter of Credit | Short Term | 2 | ACUITE A2 (Reaffirmed) |
| | Bank Guarantee | Short Term | 4 | ACUITE A2 (Reaffirmed) |
| | Bank Guarantee | Short Term | 4.5 | ACUITE A2 (Reaffirmed) |
| 29-Nov-19 | Cash Credit | Long term | 40 | ACUITE BBB+/Stable (Upgraded) |
| | Cash Credit | Long term | 25 | ACUITE BBB+/Stable (Upgraded) |
| | Term Loan | Long term | 8.5 | ACUITE BBB+/Stable (Upgraded) |
| | Letter of Credit | Short Term | 7 | ACUITE A2 (Upgraded) |
| | Letter of Credit | Short Term | 2 | ACUITE A2 (Upgraded) |
| | Bank Guarantee | Short Term | 4 | ACUITE A2 (Upgraded) |
| | Bank Guarantee | Short Term | 4.5 | ACUITE A2 (Upgraded) |
| 11-Jan-19 | Cash Credit | Long term | 40 | ACUITE BBB/Stable (Reaffirmed) |
| | Cash Credit | Long term | 25 | ACUITE BBB/Stable (Reaffirmed) |
| | Term Loan | Long term | 10.5 | ACUITE BBB/Stable (Assigned) |
| | Letter of Credit | Short Term | 7 | ACUITE A3+ (Assigned) |
| | Letter of Credit | Short Term | 2 | ACUITE A3+ (Assigned) |
| | Bank Guarantee | Short Term | 4 | ACUITE A3+ (Assigned) |
| | Bank Guarantee | Short Term | 2.5 | ACUITE A3+ (Assigned) |

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|---|---|---|---|---|
| 03-Jan-19 | Cash Credit | Long term | 15 | ACUITE BBB/Stable (Assigned) |
| | Cash Credit | Long term | 5 | 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 A-/Stable (Upgraded) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 25.00 | ACUITE A-/Stable (Upgraded) |
| Term Loan | Aug, 2019 | Aug, 2024 | 9.25% | 10.50 | ACUITE A-/Stable (Upgraded) |
| Term Loan | Aug, 2019 | May, 2026 | 9.25% | 21.00 | ACUITE A-/Stable (Upgraded) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 7.00 | ACUITE A2+ (Upgraded) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE A2+ (Upgraded) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 4.00 | ACUITE A2+ (Upgraded) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 4.50 | ACUITE A2+ (Upgraded) |

### Contacts


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**About Acuité Ratings & Research:**
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