

Press Release

Hi Tech Chemicals Private Limited

June 15, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	17.50	-	ACUITE A2+ Reaffirmed
Bank Loan Ratings	96.50	ACUITE A- Positive Reaffirmed Stable to Positive	-
Total Outstanding Quantum (Rs. Cr)	114.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating from of '**ACUITE A-**' (read as **ACUITE A minus**) and the short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.114 Cr bank facilities of Hi-Tech Chemicals Private Limited (HTCPL). The outlook has been revised from '**Stable**' to '**Positive**'.

The revision in outlook is on account of the significant improvement in the profitability and cash accruals arising from improved realizations as well as better cost efficiencies. The outlook revision also factors in the consistent improvement in the financial risk profile of the company supported by the robust debt protection metrics. The operating margin of the company improved to 27.51 per cent in FY2022 (provisional) as compared to 17.62 per cent in the previous year. Further, the PAT margins also improved to 20.81 per cent in FY2022 (provisional) as against 10.26 per cent as on FY2021. The ROCE levels stood at a robust level of about 30.40 per cent in FY2022 (provisional) as against 15.46 per cent in FY2021. The increase in profitability margins are primarily on account of economies of scale, rise in the refractory market driven by increase in demand of the end user industries, manufacturing of in-house tools, and a good management control.

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 and Mr. Rahul Agarwal. 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., Arcelor Mittal Nippon Steel India Limited, Sheffield Hitech Refractory (Germany), only to name a few.

Analytical Approach

Acuite 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.

Strong business risk profile buoyed by association with reputed clientele and suppliers and strong order book position

The company has built strong relationship of around three decades with the major integrated steel players such as Tata Steel Limited, Electrosteel Steels Limited, Jindal Steel & Power Limited, ArcelorMittal Nippon Steel India Limited and Steel Authority of India Limited (SAIL). Also, it has a relationship for more than a decade with an overseas customer, Sheffield Hi-Tech Refractories (Germany). These agreements with reputed clientele have led to lower off-take risk and ensure revenue visibility over the medium term. The company has an order book position as on 31st March, 2022 to the tune of about Rs.106.47 Cr.

HTCPL has achieved revenues of Rs.270.35 Cr in FY 2022 (provisional) as compared to revenues of Rs.220.85 Cr in FY2021, thereby registering a y-o-y growth of 22 per cent. The growth in top line is primarily driven by demand from steel companies.

HTCPL also has established long term relationships with suppliers like Hindalco Industries Limited, Almatix 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.

Significant improvement in profitability

The operating margin of the company improved to 27.51 per cent in FY2022 (provisional) as compared to 17.62 per cent in the previous year. Further, the PAT margins also improved to 20.81 per cent in FY2022 (provisional) as against 10.26 per cent as on FY2021. The ROCE levels stood at a robust level of about 30.40 per cent in FY2022 (provisional) as against 15.46 per cent in FY2021.

The predominant reasons for the significant improvement in profitability are economies of scale, rise in the refractory market driven by increase in demand of the end user industries, manufacturing of in-house tools, and a good management control.

Healthy financial risk profile

The company's healthy financial risk profile is marked by a healthy network, comfortable gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs. 194.23 Cr as on March 31, 2022 (provisional) from Rs.137.97 Cr as on March 31, 2021 due to accretion of reserves. Gearing of the company stood comfortable at 0.51 times as on March 31, 2022 (provisional) as against 0.61 times as on March 31, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood comfortable at 0.86 times as on March 31, 2022 (provisional) as against 0.93 times as on March 31, 2021. The healthy debt protection metrics of the company is marked by Interest Coverage Ratio at 16.69 times as on March 31, 2022 (provisional) and Debt Service Coverage Ratio at 6.62 times as on March 31, 2022 (provisional). Net Cash Accruals/Total Debt (NCA/TD) stood at 0.64 times as on March 31, 2022 (provisional). 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.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations is marked by high Gross Current Assets (GCA) of 253 days in FY2022 (provisional) as compared to 192 days in FY2021. The GCA days are high due to high debtor period which is at 145 days in FY2022 (provisional) as compared to 109 days in FY2021. Further, the inventory holding is also high at 139 in FY2022 (provisional) as compared to 93 days as on FY2021. These high inventory days are mainly due to process of ageing of raw materials which leads to improvement in the quality of the finished products. Acuité believes that the working capital operations of the company will remain at same level as evident from stretched collection mechanism and high inventory levels over the medium term.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Significant in revenue growth
- Sustenance in profitability margin
- Elongation of working capital cycle

Material covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by net cash accruals of Rs.63.83 Cr in FY2022 (provisional) as against long term debt repayment of Rs.5.21 Cr over the same period. The current ratio stood comfortable at 1.36 times as on FY2022 (provisional) as compared to 1.14 times as on FY2021. The fund based limit remains utilized at 85 per cent over the seven months ended April, 2022. The cash and bank balances of the company stood at Rs.1.16 Cr as on FY2022 (provisional) as compared to Rs.0.04 as on FY2021. However, the company's operations are working capital intensive as reflected by high Gross Current Assets (GCA) of 253 days in FY2022 (provisional) as compared to 192 days in FY2021. Acuité believes that going forward the company will maintain adequate liquidity position backed by increasing net cash accruals.

Outlook: Positive

Acuité believes there is substantial 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. Moreover, the company has been able to maintain its healthy financial risk profile apart from its working capital intensive nature of operations. The rating may be upgraded if the company sustains the growth momentum while maintaining the operating profitability and the financial risk profile. Conversely, the outlook may be revised to 'Stable' in case of lower than anticipated revenues, deterioration in profitability metrics, deterioration in financial risk profile or further elongation in its working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	220.85	261.31
PAT	Rs. Cr.	22.66	23.22
PAT Margin	(%)	10.26	8.89
Total Debt/Tangible Net Worth	Times	0.61	0.77
PBDIT/Interest	Times	12.78	7.73

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

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>
- Application Of 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**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Mar 2021	Bank Guarantee	Short Term	4.50	ACUITE A2+ (Upgraded from ACUITE A2)
	Term Loan	Long Term	21.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Cash Credit	Long Term	25.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Cash Credit	Long Term	40.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Bank Guarantee	Short Term	4.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Letter of Credit	Short Term	2.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Letter of Credit	Short Term	7.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Term Loan	Long Term	10.50	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
29 Nov 2019	Bank Guarantee	Short Term	4.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Letter of Credit	Short Term	2.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Bank Guarantee	Short Term	4.50	ACUITE A2 (Upgraded from ACUITE A3+)
	Term Loan	Long Term	8.50	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Cash Credit	Long Term	25.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Cash Credit	Long Term	40.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Letter of Credit	Short Term	7.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Letter of Credit	Short Term	7.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	40.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	10.50	ACUITE BBB Stable (Assigned)

11 Jan 2019	Cash Credit	Long Term	25.00	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Short Term	4.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	2.50	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A3+ (Assigned)
03 Jan 2019	Cash Credit	Long Term	5.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A2+ Reaffirmed
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A2+ Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A- Positive Reaffirmed Stable to Positive
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A- Positive Reaffirmed Stable to Positive
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A2+ Reaffirmed
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A2+ Reaffirmed
Axis Bank	Not Applicable	Term Loan	01-08-2019	9.25	31-08-2024	10.50	ACUITE A- Positive Reaffirmed Stable to Positive
Axis Bank	Not Applicable	Term Loan	01-08-2019	9.25	31-05-2026	21.00	ACUITE A- Positive Reaffirmed Stable to Positive

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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