

## Press Release

Hi Tech Chemicals Private Limited

July 07, 2022



### Rating Assigned and Reaffirmed

| Product                                   | Quantum<br>(Rs. Cr) | Long Term Rating                  | Short Term Rating       |
|---|---------------------|-----------------------------------|-------------------------|
| Bank Loan Ratings                         | 11.76               | ACUITE A-   Positive   Assigned   | -                       |
| Bank Loan Ratings                         | 15.50               | -                                 | ACUITE A2+   Reaffirmed |
| Bank Loan Ratings                         | 98.50               | ACUITE A-   Positive   Reaffirmed | -                       |
| <b>Total Outstanding Quantum (Rs. Cr)</b> | 125.76              | -                                 | -                       |
| <b>Total Withdrawn Quantum (Rs. Cr)</b>   | 0.00                | -                                 | -                       |

### Rating Rationale

Acuite has assigned and reaffirmed the long-term rating 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.125.76 Cr bank facilities of Hi-Tech Chemicals Private Limited (HTCPL). The outlook remains '**Positive**'.

The rating 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 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 cyclicity 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 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

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## **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 HiTech Refractories (Germany). These agreements with reputed clientele have led to lower offtake 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

### 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>

- Entities In Manufacturing Sector -<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  |
|-------------|--------------------------------|------------|-----------------|---|
| 15 Jun 2022 | Term Loan                      | Long Term  | 10.50           | ACUITE A-   Positive (Reaffirmed)                       |
|             | Bank Guarantee                 | Short Term | 4.00            | ACUITE A2+ (Reaffirmed)                                 |
|             | Term Loan                      | Long Term  | 21.00           | ACUITE A-   Positive (Reaffirmed)                       |
|             | Cash Credit                    | Long Term  | 25.00           | ACUITE A-   Positive (Reaffirmed)                       |
|             | Letter of Credit               | Short Term | 2.00            | ACUITE A2+ (Reaffirmed)                                 |
|             | Bank Guarantee                 | Short Term | 4.50            | ACUITE A2+ (Reaffirmed)                                 |
|             | Cash Credit                    | Long Term  | 40.00           | ACUITE A-   Positive (Reaffirmed)                       |
|             | Letter of Credit               | Short Term | 7.00            | ACUITE A2+ (Reaffirmed)                                 |
| 23 Mar 2021 | 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 | 4.50            | ACUITE A2+ (Upgraded from ACUITE A2 )                   |
|             | Term Loan                      | Long Term  | 21.00           | 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) |
| 13 Jan 2020 | Cash Credit                    | Long Term  | 25.00           | ACUITE BBB+   Stable (Reaffirmed )                      |
|             | Cash Credit                    | Long Term  | 40.00           | ACUITE BBB+   Stable (Reaffirmed )                      |
|             | Bank Guarantee                 | Short Term | 4.00            | ACUITE A2 (Reaffirmed )                                 |
|             | Letter of Credit               | Short Term | 2.00            | ACUITE A2 (Reaffirmed )                                 |
|             | Letter of Credit               | Short Term | 7.00            | ACUITE A2 (Reaffirmed )                                 |
|             | Term Loan                      | Long Term  | 10.50           | ACUITE BBB+   Stable (Reaffirmed )                      |
|             | Bank Guarantee                 | Short Term | 4.50            | ACUITE A2 (Reaffirmed )                                 |

|             |                  |            |       |  |
|-------------|------------------|------------|-------|--|
|             | Term Loan        | Long Term  | 21.00 | ACUITE BBB+   Stable (Assigned)                          |
|             | 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+)                     |
|             |                  | Short      |       |  |
| 29 Nov 2019 | Bank Guarantee   | 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+)                     |
| 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)                                    |
|             | 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)                           |
| 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 | 2.50              | ACUITE A2+   Reaffirmed           |
| State Bank of India | Not Applicable | Cash Credit           | Not Applicable   | Not Applicable | Not Applicable | 40.00             | ACUITE A-   Positive   Reaffirmed |
| Axis Bank           | Not Applicable | Cash Credit           | Not Applicable   | Not Applicable | Not Applicable | 25.00             | ACUITE A-   Positive   Reaffirmed |
| State Bank of India | Not Applicable | Cash Credit           | Not Applicable   | Not Applicable | Not Applicable | 10.00             | ACUITE A-   Positive   Assigned   |
| Axis Bank           | Not Applicable | Covid Emergency Line. | 08-11-2011       | Not Applicable | 30-11-2028     | 12.78             | ACUITE A-   Positive   Reaffirmed |
| Axis Bank           | Not Applicable | Covid Emergency Line. | 08-11-2011       | Not Applicable | 30-11-2028     | 1.76              | ACUITE A-   Positive   Assigned   |
| 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           | 31-05-2026     | 15.02             | ACUITE A-   Positive   Reaffirmed |
| Axis Bank           | Not Applicable | Term Loan             | 01-08-2019       | 9.25           | 31-08-2024     | 5.70              | ACUITE A-   Positive   Reaffirmed |

## Contacts

| Analytical  | Rating Desk  |
|---|--|
| <p>Pooja Ghosh<br/>Vice President-Rating Operations<br/>Tel: 022-49294041<br/><a href="mailto:pooja.ghosh@acuite.in">pooja.ghosh@acuite.in</a></p> <p>Kaustav Saha<br/>Assistant Manager-Rating Operations<br/>Tel: 022-49294065<br/><a href="mailto:kaustav.saha@acuite.in">kaustav.saha@acuite.in</a></p> | <p>Varsha Bist<br/>Senior Manager-Rating Operations<br/>Tel: 022-49294011<br/><a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a></p> |

### 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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