



Press Release

Hindusthan Speciality Chemicals Limited

September 12, 2022

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
1.	Long Term Bank Facilities- Term Loan	137.42	IVR BBB-/ Stable (IVR Triple B Minus with Stable outlook)	Supported: IVR BBB-(CE)/Stable Outlook Unsupported: IVR BB+/ Stable	Revised	Simple
2.	Long Term Fund Based Facilities	13.00	IVR BBB-/ Stable (IVR Triple B Minus with Stable outlook)	Supported: IVR BBB-(CE)/Stable Outlook Unsupported: IVR BB+/ Stable	Revised	Simple
3.	Short Term Non-Fund Based Facilities	109.00	IVR A3 (IVR Single A Three)	Supported: IVR A3 (CE) Unsupported: IVR A4+	Revised	Simple
Total		259.42				

Details of Facilities are in Annexure 1.

Detailed Rationale

The rating upgrade of Hindusthan Speciality Chemicals Limited considers the improvement in overall financial risk profile, continuous healthy performance in FY22. Further rating continues to derive comfort from experienced management and long-standing relationships with the clients, support from parent company and increase in scale of operations. However, these rating strengths remain constrained by high competition in the industry.

Upward Factors

- Significant and sustained growth in scale of business leading to improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity



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- Improvement in the capital structure with further improvement in debt protection metrics

Downward Factors

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile
- Any further significant rise in working capital intensity or unplanned capex leading to deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of the management and Strong Track Record of the Group**

Hindusthan Speciality Chemicals Limited is a part of “Hindusthan Group”, which has diversified business segments like engineering, chemicals, power, agriculture, renewable energy etc. The group was founded in 1947 by Mr. R. P. Mody who is the founder chairman of the group. The key management of the company has almost three to four decades of experience across diversified business segments. Longstanding presence of the promoters in the industry has helped the company in establishment of new unit, building strong relationships with customers and suppliers and diversify the product profile in a short span of time.

- **Increase in Scale of Operations**

The commercial production of the plant started from March 2019. While the working capital limits got approved in the month of June 2019 from the lead banker and from the other lenders it got approved in the month of September 2019 only. After that, the company went for formal approvals process of their products from OEM's. The approval process normally takes 6-8 months. Therefore, the first full year of formal operations started from April 2020 only. The Total Operating Income reported by the company is Rs. 450.86 Crores in FY22 as against Rs. 188.45 Crores in FY21. There is a substantial increase in the top-line due to opening of the economy and the subsequent revival of the core industries. Company reported EBITDA of Rs. 48.22 Crores (10.69%) in FY22 as against EBITDA of Rs.27.89 Crores (14.80%) in FY21. The EBITDA is supported by stabilization of the plant in FY21. Company started reporting positive EBITDA from Q3FY21 onwards. Company reported net loss of Rs.6.04 Crores in FY21 as against net loss of Rs.36.50 Crores in FY20.



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- **Support from Parent Company**

The company is benefited from the continuous support from its promoters by way of unsecured loans to meet the working capital requirements. Hindusthan Urban Infrastructure Limited (HUIL) (the parent company) holds 58.50% stake in HSCL.

- **Policy to fully hedge raw material prices to control volatility**

Cost remained volatile as the raw material prices are mainly dependent upon the crude oil prices. Around 99% of the raw material is imported therefore the company has to undertake 1-1.5 month of lead time and on the other hand it has to maintain minimum 3 months of inventory. The company has executed long term agreements with their suppliers and hedge most of the foreign exchange exposure.

Key Rating Weaknesses

- **Intense competition in the industry**

The chemical industry is highly fragmented with the presence of both organized and unorganized players providing similar products. Hence, the company faces competition from regional players leading to intense competition and pricing pressures, which in turn affect the profitability margins of the company. However, Company has been able to take advantage of the strong track record of the group, support from the parent company, production of specialised chemicals by use of latest technology and acquisition of reputed customer base over a short span of time

Analytical Approach: Standalone Approach

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-financial Sector\)](#)

[Criteria of assigning rating outlook](#)

Liquidity – Adequate

HSCL has generated a cash accrual of Rs. 27.04 Crores in FY22. The expected cash accruals for FY23 are Rs. 26.60 Crores as against the debt repayment obligations of Rs. 18.32 Crores.



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Average Utilization of bank limits for last 12 months ended May 2022 stood at ~68.05% indicating a sufficient buffer to meet incremental requirements. Further, company has reported adequate current ratio at 1.22x as on March 31, 2022, to meet its near-term cash requirements. The Company is also supported continuously by its parent company i.e., Hindusthan Urban Infrastructure Limited (HUIL) by way of unsecured loan. All the factors reflect adequate liquidity position of the company.

About the Company

Hindusthan Speciality Chemicals Limited (HSCL) is one of the leading producers of Epoxy Resins, Reactive Diluents, Curing agents and specialised Epoxy systems in India. HSCL has set up chemical project with state-of-the-art manufacturing facility for Epoxy Resins and allied products at Jhagadia Industrial Estate, Bharuch, Gujarat. The commercial production of the plant started from March 2019. The products of the company are widely used in civil construction, coatings, electrical, & electronics, composites, laminations, adhesives, tooling, and other niche end use segments. HSCL mainly deals into 2 types of product categories i.e., Industrial and Speciality products.

Financials (Standalone):

For the year ended*/As on	(Rs. crore)	
	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	188.45	450.86
EBITDA	27.89	48.22
PAT	-5.87	8.87
Total Debt	152.09	152.34
Adjusted Tangible Net worth	117.59	136.76
EBITDA Margin (%)	14.80	10.69
PAT Margin (%)	-3.09	1.96
Overall Gearing Ratio (x)	1.29	1.11

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:



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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating (12 September 2022)	Date(s) & Rating(s) assigned in 2021-22 (29 July 2022)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	Long Term	137.42	IVR BBB-/ Stable (IVR Triple B Minus with Stable outlook)	Supported: IVR BBB- (CE)/Stable Outlook Unsupported: IVR BB+/ Stable	-	-
2.	Cash Credit	Long Term	13.00	IVR BBB-/ Stable (IVR Triple B Minus with Stable outlook)	Supported: IVR BBB- (CE)/Stable Outlook Unsupported: IVR BB+/ Stable	-	-
3.	Letter of Credit	Short Term	109.00	IVR A3 (IVR Single A Three)	Supported: IVR A3 (CE) Unsupported: IVR A4+	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches



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4 in major cities and representatives in several locations. For more information visit www.infomerics.com

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term- Term Loan	-	-	-	137.42	IVR BBB-/ Stable (IVR Triple B Minus with Stable outlook)
Long Term Bank Facility – Cash Credit	-	-	-	13.00	IVR BBB-/ Stable (IVR Triple B Minus with Stable outlook)
Short Term Bank Facility Letter of Credit	-	-	180 days	109.00	IVR A3 (IVR Single A Three)

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-Hindusthan-Speciality-sep22.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.