



Press Release

Hindusthan Speciality Chemicals Limited

June 15, 2023

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 BB-/ Negative Outlook (IVR Double B Minus with Negative Outlook)	IVR BBB-/ Stable (IVR Triple B Minus with Stable outlook)	Revised	Simple
2.	Long Term Fund Based Facilities	13.00	IVR BB-/ Negative Outlook (IVR Double B Minus with Negative Outlook)	IVR BBB-/ Stable (IVR Triple B Minus with Stable outlook)	Revised	Simple
3.	Short Term Non-Fund Based Facilities	109.00	IVR A4 (IVR A Four)	IVR A3 (IVR Single A Three)	Revised	Simple
	Total	259.42	Rupees Two Hundred Fifty-Nine Crore & Forty – Two Lakhs Only			

Details of Facilities are in Annexure 1.

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has downgraded long-term rating to IVR BB- with Negative Outlook and short-term rating of IVR A4 for the bank loan facilities of Hindusthan Specialty Chemicals Limited (HSCL).

The rating has been downgraded due to deterioration in financial performance of the company in FY2023 as compared to FY2022.

The rating continues to derive comfort from experienced management and long-standing relationships with the clients, support from parent company. However, these rating strengths remain constrained by high competition in the industry.

Upward Factors



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

- **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



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inventory. The company has executed long term agreements with their suppliers and hedge most of the foreign exchange exposure.

Key Rating Weaknesses

- **Deterioration in financial performance in FY23**

The total operating income (TOI) declined by ~18.23% to Rs. 362.15 crore in FY23 from Rs. 442.90 crore in FY22. The company's operating profit margins and net profit margins declined significantly to negative in FY23 as compared to 11.75% and 2.00% respectively in FY22, due to decrease in overall operating income. In terms of the debt coverage indicators, the interest service coverage ratio (ISCR) declined to negative in FY23 as compared to 2.08x in FY22.

- **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 – Stretched

HSCL has generated a cash accrual of Rs. 27.04 Crores in FY22. The company has generated negative cash accruals in FY23 & ISCR is negative. However, the Company is supported continuously by its parent company i.e., Hindusthan Urban Infrastructure Limited (HUIL) by way of unsecured loan.

About the Company



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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):

(Rs. crore)			
For the year ended*/As on	31-03-2021	31-03-2022	31-03-2023
	Audited	Audited	Audited
Total Operating Income	188.45	450.86	362.15
EBITDA	27.89	48.22	-23.09
PAT	-5.87	8.87	-47.48
Total Debt	152.09	152.34	-
Adjusted Tangible Net worth	117.59	136.76	-
EBITDA Margin (%)	14.80	10.69	-6.37
PAT Margin (%)	-3.09	1.96	-13.11
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:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating (15 June 2023)	Date(s) & Rating(s) assigned in 2022-23 (12 September 2022)	Date(s) & Rating(s) assigned in 2021-22 (29 July 2021)	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan	Long Term	137.42	IVR BB-/ Negative Outlook (IVR Double B Minus with Negative Outlook)	IVR BBB-/ Stable (IVR Triple B Minus with Stable outlook)	Supported: IVR BBB- (CE)/Stable Outlook Unsupported: IVR BB+/ Stable	-



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2.	Cash Credit	Long Term	13.00	IVR BB-/ Negative Outlook (IVR Double B Minus with Negative Outlook)	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 A4 (IVR A Four)	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 4 in major cities and representatives in several locations. For more information visit www.infomerics.com



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Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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 BB-/ Negative Outlook (IVR Double B Minus with Negative Outlook)
Long Term Bank Facility – Cash Credit	-	-	-	13.00	IVR BB-/ Negative Outlook (IVR Double B Minus with Negative Outlook)
Short Term Bank Facility Letter of Credit	-	-	180 days	109.00	IVR A4 (IVR A Four)

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-Specialty-jun23.pdf>



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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.