



## Press Release

### Hindusthan Speciality Chemicals Limited

July 29, 2021

#### Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating	Rating Action
1.	Long Term Bank Facilities- (Sanctioned)	151.34	IVR BBB- (CE)/Stable Outlook (IVR Triple B Minus (CE) with Stable Outlook)	Assigned
2.	Short Term Bank Facilities (Sanctioned)	36.00	IVR A3 (CE) (IVR A Three (CE))	Assigned
3.	Short Term Bank Facilities- (Proposed)	72.66	IVR A3 (CE) (IVR A Three (CE))	Assigned
	<b>Total</b>	<b>260.00</b>		

*\* The credit enhancement (CE) rating is backed by corporate guarantee given by Hindusthan Urban Infrastructure Limited for the rated facilities.*

#### Details of Facilities are in Annexure 1

#### Detailed Rationale

The ratings assigned to the bank facilities of Hindusthan Speciality Chemicals Limited takes into account its irrevocable and unconditional corporate guarantee from Hindusthan Urban Infrastructure Limited. This corporate guarantee results in credit enhancement in the rating of the said instruments to **Long term- IVR BBB- (CE)/Stable Outlook (IVR Triple B Minus (CE) with Stable Outlook)** and **Short Term- IVR A3 (CE) (IVR A Three (CE))** against the unsupported rating of **Long Term: IVR BB+/ Stable Outlook (IVR Double B Plus with Stable Outlook)** and **Short Term: IVR A4+ (IVR A Four Plus)**.

The rating further derives comfort from extensive experience of the management and strong track record of the Hindusthan Group. The rating also factors in its increase in scale of operations, comfort from corporate guarantee, comfortable financial risk profile and policy to hedge raw material prices to control volatility. However, these rating strengths continues to be



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constrained by below average debt metrics, nascent stage of operations, working capital intensive nature of operations and intense competition in the industry.

### **Key Rating Sensitivities:**

#### **Upward Factor:**

- ✓ 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 factor:**

- ✓ 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 a further 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”. 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 September 2018. While the working capital limits got approved in the month of June 2019 from the lead banker and from the other



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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 Operating Income increased to Rs.188.45 Crores in FY21(Prov) from Rs.87.56 Crores in FY20. Company reported positive EBITDA of Rs.28.96 Crores in FY21(Prov) as against negative EBITDA of Rs.14.18 Crores in FY20. Furthermore, the results for Q1FY22 are also favourable and scale of operations will further increase on account of reputed customers acquisition and completion of formal approval of products by different OEM's. The margins will also increase as capex is stabilizing and break even in terms of net margin is expected by the end of FY22.

### **Comfortable Financial Risk Profile**

The financial risk profile of the company is comfortable marked by satisfactory Tangible Net worth (including Quasi Equity) base of Rs.117.37 Crores in FY21(Prov) as against Rs.127.90 Crores in FY20. The Overall gearing stands at 1.30x in FY21(Prov) as against 1.06x in FY20. TOL/TNW (including Quasi Equity) stands at 1.70x in FY21(Prov) as against 1.25x in FY20.

### **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 has provided corporate guarantee of Rs.209.89 Crores to the lenders of 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 2 months of inventory. The company has long term arrangements with their suppliers and hedge most of the foreign exchange exposure.



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### **Key Rating Weaknesses**

#### **Below Average Debt Protection Metrics and Nascent Stage of Operations**

The debt protection metrics is below average with expected ICR in the range of 1.60-2.20x and expected DSCR in the range of 1.00-1.10x during the projected period. The parent company i.e. Hindusthan Urban Infrastructure Limited (HUIL) continuously provides support in the form of unsecured loan so repayment of debt obligation is being taken care of through infusion of unsecured loans. The company is into nascent stage of operations as FY21 was the first formal year of operations. Going forward as per the projections company will be achieving the break even in terms of net margin by the end of FY22 and will be able to service its debt obligations on its own.

#### **Working Capital intensive nature of operations**

The operations of the company remained working capital intensive (Operating Cycle stood at 80 days in FY21(Prov)). The average utilization of the working capital also remained high ~87% during the last 12 months ended May 2021.

#### **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: Credit Enhancement (CE) rating:** Assessment of the credit profile of Hindusthan Urban Infrastructure Limited, provider of irrevocable and unconditional corporate guarantee to the bank facilities of Hindusthan Speciality Chemicals Limited.

**Unsupported rating:** Standalone



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### **Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Rating Methodology for Structure Debt Transactions (Non Securitisation transaction)

Financial Ratios & Interpretation (Non-Financial Sector)

### **Liquidity - Adequate**

HSCL has generated a cash accrual of Rs.6.17 Crores in FY21(Prov). The repayment of term loan will start from September 2021. The expected cash accruals for FY22 is Rs.15.64 Crores as against the debt repayment obligations of Rs.12.48 Crores. Average Utilization of bank limits for last 12 months ended May, 2021 stood at ~87% indicating a minimal buffer to meet incremental requirements. Further, company has reported adequate current ratio at 1.36x as on March 31, 2021(Prov) 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 Entity**

Hindusthan Speciality Chemicals Limited (HSCL) was incorporated in July 2003 by the name of "Bharat Electric and Industries Limited" and was renamed "Hindusthan Alkalies Limited" in November 2006. The company was renamed again with the current name in September 2013. The Pilot manufacturing unit of the company was located at Taloja, Navi Mumbai & now has been shifted to Jhagadia, Bharuch, Gujarat. 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 is a subsidiary of Hindusthan Urban Infrastructure Limited (HUIL).

Hindusthan Urban Infrastructure Limited (HUIL) is the parent company which was established in 1959. It is a leading manufacturer of overhead conductors and electro-porcelain high tension insulators such as Disc, solid core, hollow and railway. Its operations are classified into two divisions i.e. conductors and insulators.



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### Financials (HSCL- Standalone):

For the year ended*/As on	(Rs. Crore)	
	31-03-2020	31-03-2021
	<b>Audited</b>	<b>Provisional</b>
Total Operating Income	87.56	188.45
EBITDA	-14.18	28.96
PAT	-36.50	-6.04
Total Debt	194.21	208.39
Adjusted Debt (excluding subordinated debt)	135.59	152.05
Tangible Net worth	69.28	61.03
Adjusted Tangible Networkth	127.90	117.37
EBITDA Margin (%)	-16.20	15.37
PAT Margin (%)	-41.44	-3.20
Overall Gearing Ratio (x) on Book TNW	2.80	3.41
Overall Gearing Ratio (x) on Net Adjusted TNW	1.06	1.30

\*Classification as per Infomerics' standards

### Financials of Corporate Guarantor: Hindusthan Urban Infrastructure Limited (HUIL)

For the year ended*/As on	(Rs. Crore)	
	31-03-2020	31-03-2021
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	462.94	352.55
EBITDA	42.23	31.20
PAT	5.56	2.59
Total Debt	146.52	137.00
Tangible Net worth	455.32	458.48
Adjusted Tangible Networkth	326.87	330.11
EBITDA Margin (%)	9.12	8.85
PAT Margin (%)	1.18	0.71
Overall Gearing Ratio (x) on Book TNW	0.32	0.30
Overall Gearing Ratio (x) on Net Adjusted TNW	0.45	0.42

\*Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** None

**Any other information:** Nil



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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Long Term Fund Based Facilities- Cash Credit (Sanctioned)	Long Term	13.00	IVR BBB-(CE)/Stable Outlook (IVR Triple B Minus (CE) with Stable Outlook)	-	-	-
2.	Long Term Fund Based Facilities- Term Loan (Outstanding)	Long Term	111.99	IVR BBB-(CE)/Stable Outlook (IVR Triple B Minus (CE) with Stable Outlook)	-	-	-
3.	Long Term Fund Based Facilities- COIVD Loans (ECLGS) (Sanctioned)	Long Term	26.35	IVR BBB-(CE)/Stable Outlook (IVR Triple B Minus (CE) with Stable Outlook)			
4.	Short Term Non Fund Based Facilities- LC & BG (Sanctioned)	Short Term	36.00	IVR A3 (CE) (IVR A Three (CE))			
5.	Short Term Non Fund Based Facilities- LC (Proposed)	Short Term	72.66	IVR A3 (CE) (IVR A Three (CE))			

**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](http://www.infomerics.com).



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### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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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 Fund Based Facilities-Cash Credit (Sanctioned)	-	-	-	13.00	IVR BBB-(CE)/Stable Outlook (IVR Triple B Minus (CE) with Stable Outlook)
Long Term Fund Based Facilities- Term Loan (Outstanding)	-	-	September, 2027	111.99	IVR BBB-(CE)/Stable Outlook (IVR Triple B Minus (CE) with Stable Outlook)
Long Term Fund Based Facilities- COIVD Loans (ECLGS) (Sanctioned)	-	-	January, 2026	26.35	IVR BBB-(CE)/Stable Outlook (IVR Triple B Minus (CE) with Stable Outlook)
Short Term Non Fund Based Facilities- LC & BG (Sanctioned)	-	-	-	36.00	IVR A3 (CE) (IVR A Three (CE))
Short Term Non Fund Based Facilities- LC (Proposed)	-	-	-	72.66	IVR A3 (CE) (IVR A Three (CE))

### Annexure 2: Facility Wise Lenders Details

(<https://www.infomerics.com/admin/prfiles/lenders-hindusthan-speciality-29july21.pdf>)