

Press Release

Hemant Industries

January 14, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 5.13 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B**' (read as **ACUITE B**) to the Rs. 5.13 crore bank facilities of Hemant Industries (HI). The outlook is '**Stable**'.

The Madhya Pradesh-based, Hemant Industries was established in 1997 by Mr. Ashok Paliwal as a proprietorship firm. The firm is engaged in the manufacturing and trading of cotton seeds, cake and extraction of oil. The registered office is located at Khandwa (Indore).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the HI to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management**

Mr. Paliwal has experience of more than two decades in the cotton seed cake and wash oil business. His extensive experience has helped the firm establish long term relations with customers and suppliers.

- **Proximity to cotton growing areas**

The manufacturing/processing unit is located at Khandwa- Madhya Pradesh, which is famous for cotton.

- **Comfortable working capital cycle**

The working capital operations are comfortable marked by Gross Current Assets (GCA) of 67 days in FY2018 compared to 73 days in FY2017. The GCA days are mainly dominated by inventory days of 48 in FY2018 as against 54 days in FY2017. The debtor days stood at 17 in FY2018 and 9 days in FY2017.

Weaknesses

- **Modest scale of operations and stagnant revenues**

The proprietorship firm was established in 1997. The scale of operations has been modest with operating revenue of Rs. 30.28 crore for FY2017-18 as against Rs. 22.07 for FY2016-17. The firm booked revenue of ~ Rs 12.00 crore from April 2018 to December 2018.

- **Average financial risk profile**

The financial risk profile of HI is average marked by low net worth stood at Rs 1.98 crore in FY2018 as against Rs 1.86 crore in FY2017. The networth consists of proprietors capital of Rs 1.42 crore and depreciation reserve of Rs 0.56 crore. The gearing stood at 2.13 times in FY2018 as against 1.96 times in FY2017. Interest Coverage Ratio stood at 1.63 times in FY2018 as against 1.71 times in FY2017.

- **Highly fragmented and competitive industry**

The firm is exposed to intense competition in the industry from several small and large players affecting margins.

- **Capital withdrawal risk**

Hemant Industries is exposed to risk of capital withdrawal considering its proprietorship constitution. However, no such instances have been observed during the period under study.

Outlook: Stable

Acuité believes that the firm will continue to maintain a 'Stable' outlook owing to the management's extensive experience in the cotton processing business. The outlook may be revised to 'Positive' in case of improvement in profitability and capital structure while improving the scale of operations. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	30.28	22.07	22.20
EBITDA	Rs. Cr.	0.60	0.46	0.39
PAT	Rs. Cr.	0.13	0.09	0.10
EBITDA Margin	(%)	1.97	2.10	1.74
PAT Margin	(%)	0.44	0.42	0.44
ROCE	(%)	8.58	7.00	5.21
Total Debt/Tangible Net Worth	Times	2.13	1.96	1.84
PBDIT/Interest	Times	1.63	1.71	2.04
Total Debt/PBDIT	Times	7.09	7.69	8.39
Gross Current Assets (Days)	Days	67	73	62

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Feb-2018	Cash Credit	Long Term	3.00	ACUITE B / Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	2.13	ACUITE B / Stable (Reaffirmed)
30-Jan-2017	Cash Credit	Long Term	3.00	ACUITE B / Stable (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE B / Stable (Reaffirmed)
	Term Loan	Long Term	0.13	ACUITE B / Stable (Reaffirmed)
21-Oct-2015	Cash Credit	Long Term	3.00	ACUITE B / Stable (Assigned)
	Cash Credit	Long Term	2.00	ACUITE B / Stable (Assigned)
	Term Loan	Long Term	0.13	ACUITE B / Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE B / Stable (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.13	ACUITE B / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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