

May 02, 2016

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit*	7.00	SMERA A-/Stable (Assigned)
Letter of Credit	2.00	SMERA A2+ (Assigned)
Bank Guarantee **	12.00	SMERA A2+ (Assigned)
Proposed	4.00	SMERA A2+ (Assigned)

*sub limit is FBP/FBD up to Rs. 1.00 crore, Drawing against un-cleared effect (DAUE) up to Rs. 0.50 crore

** sub limit is LC up to Rs. 8.00 crore, Buyer's Credit up to Rs. 8.00 crore, Bank Guarantee up to Rs. 8.00 crore and over draft up to Rs. 1.00 crore

SMERA has assigned ratings of '**SMERA A-** (read as **SMERA A minus**) and **SMERA A2+** (read as **SMERA A two plus**) to the above mentioned bank facilities of Hindustan Composites Limited (HCL). The outlook is '**Stable**'. The ratings derive comfort from the company's long track record of operations, experienced management and above average financial risk profile. The ratings also draw strength from the diversified client base for manufacturing of composites, structured investment policy for the treasury division and consistent growth in revenues and profit margins. However, the ratings are constrained by the competitive auto component industry, inherent risks associated with the financial market and susceptibility to economic changes in the country.

HCL, (formerly Hindustan Ferodo Ltd) was incorporated in 1964 under the leadership of Mr. Ferodo. The company has been a pioneer in the development, manufacture and marketing of asbestos industrial products and friction material in India for over six decades. Mr. Raghu Mody, the Promoter and Executive Chairman, is a graduate from Cambridge University with over five decades of experience as an industrialist and has been associated with the company since 1987.

The above average financial risk profile of HCL is marked by high ICR of 228.01 times with a DSCR of 41.64 times as on March 31, 2015. Further, the gearing as on March 31, 2015 stood at 0.01 times and NCA/TD at 5.80 times as on March 31, 2015. The networth of the company stood at Rs.549.13 crore as on March 31, 2015. The company has a diversified customer base with top 10 customers constituting ~25 per cent of the total sales. For its treasury division, the company follows a well-structured investment policy. Not more than 10 per cent investment is in equity instruments and out of the remaining at least 50 per cent needs to be invested in fixed coupon debt instruments. Currently, out of the total investment by HCL, more than 50 per cent is invested in quoted bonds. Moreover, HCL's revenues grew at a CAGR of 14 per cent between FY2014-15 and FY2012-13 on account of growth in the Indian auto component industry. Out of the total revenues of Rs. 152.06 crore for FY2014-15, revenues from treasury business accounted for Rs. 40.00 crore.

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The ratings are constrained by intense market competition in the auto component industry. However, HCL has more than decades relations with its customers and has been able to establish itself well. Further, the ratings are constrained by the inherent risks associated with the financial market and susceptibility of the company to the changes in the economy. However, HCL has laid down a well-defined risk management policy covering the risk mapping, trend analysis, risk exposure, potential impact and risk mitigation process.

Outlook: Stable

SMERA believes that the company will be able to maintain its credit profile in the medium term. The outlook may be revised to 'Positive' in case the company receives higher than expected profit margins. Conversely, the outlook may be revised to 'Negative' in case of lower than expected profit margins and deterioration in the investment portfolio.

Rating Sensitivity Factors

- Scaling up operations while maintaining margins
- Changes in the investment policy

About the Company

The Mumbai-based HCL was incorporated in 1964 as Hindustan Ferodo Ltd. by Mr. Raghu Mody (promoter of the Kolkata-based Rasoi group of companies) and London-based Asbestos Magnesia Friction Materials Ltd (AMFML). HCL is engaged in the development, manufacture and marketing of asbestos industrial products and friction material in India. It is also involved in the treasury business. HCL has two manufacturing facilities for its composites division situated at Bhandara and Paithan. The end user industries are railways, steel, automotive and chemical among others. For FY2014-15, HCL reported profit after tax (PAT) of Rs.25.80 crore on operating income of Rs.152.06 crore as compared with PAT of Rs.17.20 crore on operating income of Rs.138.43 crore for FY2013-14.

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