

Press Release

Hindustan Composites Limited

August 16, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	SMERA A- / Outlook: Stable
Short Term Rating	SMERA A2+

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA A-**' (read as **SMERA A minus**) and short term rating of '**SMERA A2+**' (read as **SMERA A two plus**) on the Rs. 25.00 crore bank facilities of Hindustan Composites Limited. The outlook is '**Stable**'.

The Mumbai-based Hindustan Composites Limited (HCL), incorporated in 1964 is engaged in the development, manufacturing and marketing of brake lining using asbestos industrial products and friction material. The company is also engaged in the treasury business since 2010. HCL has two manufacturing facilities at Bhandara and Paithan (Maharashtra) with a combined capacity of 20 million units per annum. HCL entered into a joint venture (51 percent stake) with Advics North India Private Limited to set up Compo Advics (India) Private Limited. The company manufactures disc brake pads and related components for passenger vehicles.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

HCL, (formerly Hindustan Ferodo Ltd), incorporated in 1964 has been a pioneer in the development, manufacture and marketing of asbestos industrial products and friction materials for over six decades. The company is led by Mr. Raghu Mody, the Promoter and Executive Chairman, a graduate from Cambridge University with over five decades of experience as an industrialist. He has been associated with the company since 1987. HCL started its treasury division in 2010 which now has a total portfolio of Rs.536.21 crore as on 31 March, 2017 (Provisional) compared to Rs.408.25 crore as on 31 March, 2016. The company has a dedicated team of analysts and industry specialists, operating out of Mumbai and Kolkata, that advises the company in its investment making decisions.

- **Healthy financial risk profile**

The healthy financial risk profile is marked by net worth of Rs. 683.05 crore as on 31 March, 2017 as against Rs.584.10 crore in the previous year. The total outside liabilities to tangible networth (TOL/TNW) stood at 0.13 times as on 31 March, 2017 as against 0.08 times in the previous year. The coverage indicators are healthy with interest coverage ratio (ICR) of 194.90 times for FY2016-17 (60.00 times for FY2015-16) and net cash accruals to total debt of 8.87 times for FY2016-17 (4.57 times for FY2015-16). SMERA believes that the financial risk profile of HCL will continue to remain healthy on the back of healthy cash accruals.

- **Diversified client base**

HCL (composites division) has a diversified client portfolio with top 10 clients contributing 18.45 per cent of the total revenue of Rs.124.98 crore for FY2016-17 (Provisional) compared to 28.35 per cent of total revenues of Rs.120.71 crore for FY2015-16. Some of the top clients include Kerala State Road Transport Corporation, Maharashtra State Road Transport Corporation and Dobac International. HCL

is also a Tier 2 supplier of brake lining for Toyota. The company caters to diverse industries including railways, steel, automotive among others. The non-current investment portfolio of HCL treasury division has been growing at a stable rate with Rs.536.21 crore as on 31 March, 2017 (Provisional) as against Rs.408.25 crore as on 31 March, 2016. In FY2015-16, HCL's investment portfolio included 59.52 per cent in quoted instruments (51.26 per cent in FY2014-15) such as bonds and government securities and the remaining in the unquoted real estate, preference shares and debentures. For current investments, the portfolio mainly consists of unquoted mutual funds and quoted debentures. SMERA believes that HCL's investment policy of investing in less risky instruments will be instrumental in maintaining the profit margins of the company.

• Stable business risk profile

The revenues have been consistently growing at a CAGR of 15.61 per cent during the period FY2014 to FY2017. The company generated revenue of 75.21 per cent from its composites division and 24.79 per cent from treasury. In FY2016-17 (Provisional), the revenue declined to Rs.166.17 crore from 185.87 crore in FY2015-16 on account of fall in treasury income to Rs.41.19 crore from Rs.65.16 crore in FY2015-16. Nevertheless, the margins have remained range bound (22 to 28 per cent) during the period under study. The EBIDTA margins stood at 22.79 per cent in FY2016-17 (Provisional) as against 28.10 per cent in FY2015-16. The PBIT margins (treasury) stood at 80.63 per cent compared to 6.99 per cent from the composite business in FY2016-17.

Weaknesses**• Intense competition**

The company is exposed to intense competition from organised and unorganised players. However, HCL has more than a decades experience and has been able to establish itself in the Indian auto component industry.

• Susceptibility to volatility in financial markets and economic changes

The profitability is mainly driven by robust margins registered in its treasury business. The profitability is also susceptible to the inherent risks associated with financial markets and changes in the economy. However, HCL has a well-defined risk management policy which enables it to mitigate this risk to a certain extent.

Analytical Approach

SMERA has considered the consolidated financial and business risk profiles of the company together with Compo Advics (India) Private Limited to arrive at the rating.

Outlook: Stable

SMERA believes that the company will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers 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.

About the Rated Entity - Key Financials

The company registered Profit After Tax (PAT) of Rs.23.49 crore on operating income of Rs.166.17 crore for FY2016-17 compared to PAT of Rs. 37.06 crore on operating income of Rs.185.88 crore in the previous year. The networth stood at Rs. 608.05 crore as on 31 March, 2017 as against Rs.584.10 crore as on 31 March, 2016.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument
<https://www.smera.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
02-May-2016	Cash Credit	Long Term	INR 7	SMERA A- / Stable
	Letter of Credit	Short Term	INR 2	SMERA A2+
	Bank Guarantee	Short Term	INR 12	SMERA A2+
	Proposed	Short Term	INR 4	SMERA A2+

***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	7.00	SMERA A- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A2+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA A2+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA A2+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A2+
Buyers Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A2+

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ABOUT SMERA

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