Press Release

Hindustan Composites Limited

October 29, 2018

Rating Reaffirmed

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

** Refer Annexure for details*

Rating Rationale

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

The Mumbai-based 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 (49 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.

Analytical Approach

Acuité has considered consolidated business and financial risk profile of HCL to arrive at the rating.

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, 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.605.14 crore as on 31 March, 2018 compared to Rs.536.21 crore as on 31 March, 2017. 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.

Acuité believes that the company will be benefitted by the established track record of operation along with the healthy relationship with its customers and suppliers which helps it to get the repeated business.

- **Healthy financial risk profile**

The financial risk profile of the company remains to be healthy marked by healthy net worth of Rs.732.54 crore as on March 31, 2018 as compared to Rs.687.99 crore as on March 31, 2017. The coverage indicators are healthy with interest coverage ratio (ICR) of 113.54 times for FY2018 (PY:193.60 times). The gearing (debt/equity ratio) stood healthy at 0.01 times as on 31 March, 2018. The total debt of Rs.4.94 crore outstanding as on 31 March, 2018 comprises Rs.0.50 crore as a secured vehicle loan from the bank, Rs.1.44 crore as unsecured loan from financial institution and Rs.2.01 crore as short term working capital loan from the bank. The total outside liabilities to tangible networth (TOL/TNW) stood at 0.13 times as on March 31, 2018. The net cash accruals stood healthy at Rs.31.64 crore in FY2018 as against Rs.30.92 crore in FY2017.

Acuité believes that the financial risk profile of HCL will continue to remain healthy on the back of healthy cash accruals with no major long term debt obligation.

- **Diversified client base**

HCL (composites division) has a diversified client portfolio with top 10 clients contributing 23 percent of the total revenue of Rs.199.18 crore for FY2017-18 compared to 22 percent of total revenues of Rs.166.26 crore for FY2016-17. 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.605.14 crore as on 31 March, 2018 as against Rs. Rs.536.21 crore as on 31 March, 2017. In FY2017-18, HCL's investment portfolio included ~49 percent in quoted instruments (48 percent in FY2016-17) 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 quoted mutual funds and quoted debentures.

Acuité believes that HCL's investment policy of investing in less risky instruments will be instrumental in maintaining the profit margins of the company.

Weaknesses

- **Uneven revenue trend with declining profitability**

The operating income of the company has shown uneven trend during the period under the study for FY2016 to FY2018. The operating income for FY2018 stood at Rs.199.18 crore as against Rs.166.26 crore for FY2017 and Rs.185.88 crore for FY2016. The revenues of the company have increased in FY2018 on account of increase in revenues from the composite products i.e by 14 percent from the previous year. The revenue of the company declined to Rs.166.17 crore in FY2017 as compared to Rs.185.88 crore in FY2016. The decline in revenue was on account of lower treasury income which stood at Rs.41.19 crore for FY2017 as compared to Rs. 65.16 crore in FY2016. In FY2016, the company registered one time capital gain through selling of Borosil Glass Works Limited which accounted to Rs.25.00 crore in the total treasury income of Rs.65.16 crore.

The profitability margins of HCL have shown declining trend for the last three years ended 31 March, 2018. The operating profitability stood at 18.60 percent (PY: 23.52 percent). The profitability was impacted mainly due to continuous cost pressures with commodity prices going-up. This impact could not be fully passed on to the customers because of competitive market conditions and fixed rate contracts with the Railway and other customers. Increase in international prices of Crude and other commodity prices are resulting in inflationary pressure in the company's raw material cost. The net profitability margins have also shown declining trend.

Acuité believes that the ability of HCL to maintain its revenue streams along with the profitability margins will be key rating sensitivity.

- **Working capital intensity**

The working capital cycle of HCL is working capital intensive marked by Gross Current Assets (GCA) of 176 days in FY2018 (PY: 182 days). The GCA days are majorly dominated by the stretched receivables which stood at 79 days for FY2018 (PY: 70 days). The inventory days are moderate and range between 25 to 30 days. The working capital cycle is further supported by stretched suppliers which moderates the working capital requirement. The suppliers are LC backed which ranges between 60 to 90 days. The average bank limit utilisation stood at 25 percent for the last six months ended August, 2018.

- **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 the 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.

Outlook: Stable

Acuité believes that HCL 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

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	199.18	166.26	185.88
EBITDA	Rs. Cr.	37.04	39.10	52.23
PAT	Rs. Cr.	23.01	23.21	37.06
EBITDA Margin	(%)	18.60	23.52	28.10
PAT Margin	(%)	11.55	13.96	19.94
ROCE	(%)	3.43	4.52	15.02
Total Debt/Tangible Net Worth	Times	0.01	0.01	0.02
PBDIT/Interest	Times	113.14	193.60	60.00
Total Debt/PBDIT	Times	0.14	0.12	0.20
Gross Current Assets (Days)	Days	176	182	86

Note: The key financials for FY2017 and FY2018 have been prepared as per INDAS.

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
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-22.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
16-Aug-2017	Cash Credit*	Long Term	7.00	ACUITE A- / Stable (Reaffirmed)
	Proposed Short Term Loan	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	4.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee**	Short Term	8.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Buyers Credit	Short Term	2.00	ACUITE A2+ (Reaffirmed)
02-May-2016	Cash Credit*	Long Term	7.00	ACUITE A- / Stable (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A2+ (Assigned)
	Bank Guarantee**	Short Term	12.00	ACUITE A2+ (Assigned)
	Proposed Bank Facility	Short Term	4.00	ACUITE 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*

Note on complexity levels of the rated instrument

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

*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	ACUITE A- / Stable (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A2+ (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A2+ (Reaffirmed)
Bank guarantee/Letter of Guarantee **	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A2+ (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A2+ (Reaffirmed)
Buyers Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A2+ (Reaffirmed)

**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*

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Namita Palve Analyst - Rating Operations Tel: 022-49294034 namita.palve@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to vario us securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.