

**Press Release**  
**Hindustan Composites Limited**

January 12, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
<b>Bank Ratings</b> <b>Loan</b>	13.00		ACUITE A2+   Reaffirmed
<b>Bank Ratings</b> <b>Loan</b>	12.00	ACUITE A-   Stable   Reaffirmed	
<b>Total</b>	25.00	-	-

\* Refer Annexure for details

**Rating Rationale**

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

**Rationale for rating reaffirmation**

The rating reaffirmation is driven by improvement in revenue and profitability margin along with healthy financial risk profile. However, the rating remains constrained on account of intensive working capital operations, susceptibility to volatility in financial markets and economic changes and intense competition in auto component industry impacting the profitability.

**About the Company**

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**

Acuite has considered the consolidated business and financial risk profile of HCL along with its subsidiary Compo Advics (India) Private Limited to arrive at the rating. Extent of Consolidation: Full.

**Key Rating Drivers**

**Strengths**

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

HCL, (formerly Hindustan Ferodo Ltd) was 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.686.58 crore as on 31 March, 2021 compared to Rs.625.33 crore as on 31 March, 2020. Out of the total portfolio of Rs.686.58 crore, investment in equity instruments is Rs.276.07 crore and the remaining in debt instruments. 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.

The experience of the management has helped the company to record a revenue that stood at Rs.184.59 crore in FY2021 as against Rs.178.05 crore in FY2020 along with EBIDTA margin of the company stood at 15.05 percent in FY2021 as against 11.12 percent in FY2020 and PAT margin stood at 10.68 percent in FY2021 as against 5.88 percent in FY2020. Similarly, the company recorded a revenue of Rs.99.65 crore with an EBIDTA margin of 12.40 percent and PAT margin stood of 7.15 percent for HFY2022.

Acuité believes that the company will be benefitted by the established track record of operation along with a healthy relationship with its customers and suppliers, which helps it to get the repeated business and improving its business risk profile over the medium term.

### **Healthy financial risk profile**

The financial risk profile of the company stood healthy marked by healthy net worth, low gearing and moderate debt protection metrics. The tangible net worth stood at Rs.816.65 crore as on March 31, 2021 as against Rs.771.32 crore as on March 31, 2020. The improvement in net worth is due to accretion of profits in the reserve. The HCL follows a conservative financial policy with total debt of the company stood at Rs.0.42 crore which includes Rs.0.42 crore of long term debt as on March 31, 2021. The gearing (debt-equity) stood low at 0.00 times as on March 31, 2021 as compared to 0.01 times as on March 31, 2020. Interest Coverage Ratio stood healthy at 166.35 times for FY2021 as against 82.83 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 34.13 times for FY2021 as against 18.17 times for FY2020. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 0.12 times as on March 31, 2021 as well as on March 31, 2020. Net Cash Accruals to Total Debt (NCA/TD) also stood at 67.92 times for FY2021 as against 3.41 times for FY2020.

Acuité believes that the financial risk profile of the company will continue to remain healthy over the medium term 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 ~47 percent of the total revenue of Rs.149.62 crore in manufacturing segment for FY2021 compared to ~39 percent of the total revenue of Rs.144.40 crore. Some of the top clients Ashok Leyland Limited, Maharashtra State Road Transport Corporation, Eastern Railway and Southern Railway among others. HCL is also a Tier 2 supplier of brake lining for Toyota and TATA. 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.653.55 crore as on 31 March, 2021 as against Rs.596.96 crore as on 31 March, 2020. In FY2021, HCL's investment portfolio included ~51 percent in quoted instruments (~46 percent in FY2020) 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**

#### **Working capital intensive operations**

The working capital cycle of HCL is working capital intensive marked by GCA days of 223 days in FY2021 as against 227 days in FY2020. The GCA days are majorly dominated by the stretched receivables on net sales which stood at 91 days in FY2021 as against 86 days in FY2020. The inventory days are moderate and stood at 28 days in FY2021 as against 29 days in FY2020. 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 utilization stood low at around 8 percent for the last 8 months ended November 2021.

Acuité believes that efficient working capital management will be crucial to the company in order to maintain a healthy risk profile.

### **Susceptibility to volatility in financial markets and economic changes and intense competition in auto component industry**

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

### **ESG Factors Relevant for Rating**

The automobile industry is marked with high energy intensity and correspondingly high GHG emissions. The company has steps taken on the impact on conservation of energy with a capital investment on energy conservation equipment worth Rs.18 lakhs. In pursuant to that, the company has installed high density thermal insulation for reduction of heat loss in presses and ovens and replacement of old roofing sheets with polycarbonate transparent sheets for better use of day light. The company has initiated discussion with Power trading platform / private solar energy suppliers for procuring power at best price and for utilizing alternative sources of energy.

On the governance front, the company is exposed to key issues such as board composition and independence, managerial compensation and business ethics. For this the company has in place proper and adequate internal control systems and adheres to the highest standards of business ethics, transparency in all its dealings and timely compliance with statutory and legal requirements. The company has duly constituted various committee such as audit committee, nomination and remuneration committee which looks after the appointment / reappointment of executive directors, key managerial personnel (KMPs) and senior management personnel (SMPs) of the Company and for the remuneration payable to them. HCL board comprises of a total of 6 directors out of which 5 is independent director and one is women director.

The Company has adopted Safety, Health and Environment (SHE) System with a commitment to provide a safe and healthy working environment. Also as a part of its initiatives under CSR, taking into account the current Covid-19 pandemic situation across the world and in order to support and assist the Central Government to cater the public health emergency, the Company contributed a sum of Rs.70.00 Lakhs to the PM CARES fund towards its CSR obligations.

### **Rating Sensitivities**

Improving the scale of operations while improving and sustaining the profitability margins.  
Any elongation of the working capital cycle leading to deterioration in financial risk profile.

### **Material covenants**

None.

### **Liquidity Position: Adequate**

The company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.19.00-28.60 crore during the last three years through 2019-21, while the maturing debt obligation is in the range of Rs.0.30-0.90 during the same period. The company's working capital operation stood intensive marked by GCA days of 223 days in FY2021 as against 227 days in FY2020. The company

maintains an unencumbered cash and bank balances of Rs.2.19 crore as on March 31, 2021. The current ratio of the company stood at 2.48 times as on March 31, 2021. The average bank limit utilization stood low at around 8 percent for the last 8 months ended November 2021.

### Outlook: Stable

Acuité believes HCL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management and long-standing relations with customers and suppliers. The outlook may be revised to 'Positive' in case the company registers higher than expected revenues and profit margins. Conversely, the outlook may be revised to 'Negative' in case of lower than expected profit margins and deterioration in the investment portfolio.

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	184.59	178.05
PAT	Rs. Cr.	19.72	10.47
PAT Margin	(%)	10.68	5.88
Total Debt/Tangible Net Worth	Times	0.00	0.01
PBDIT/Interest	Times	166.35	82.83

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

Not Applicable.

### Any other information

None.

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
12 Oct 2020	Bank Guarantee	Short Term	4.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Secured Overdraft	Long Term	2.00	ACUITE A-   Stable (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	7.00	ACUITE A-   Stable (Reaffirmed)
05 Oct 2020	Bank Guarantee	Short Term	4.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	7.00	ACUITE A-   Negative (Reaffirmed)
	Secured Overdraft	Long Term	2.00	ACUITE A-   Negative (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Reaffirmed)
05 Mar 2019	Letter of Credit	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	7.00	ACUITE A-   Stable (Reaffirmed)
	Letter of Credit	Short Term	9.90	ACUITE A2+ (Reaffirmed)
	Buyers Credit	Short Term	2.00	ACUITE A2+ (Withdrawn)
	Bank Guarantee	Short Term	4.00	ACUITE A2+ (Reaffirmed)
	Proposed Short Term Loan	Short Term	2.10	ACUITE A2+ (Reaffirmed)
29 Oct 2018	Bank Guarantee	Short Term	4.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	8.00	ACUITE A2+ (Reaffirmed)
	Proposed Short Term Loan	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Buyers Credit	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	7.00	ACUITE A-   Stable (Reaffirmed)
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)
		Short		

	Letter of Credit	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)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A2+   Reaffirmed
Yes Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A2+   Reaffirmed
ICICI Bank Ltd	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A-   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A-   Stable   Reaffirmed

Note:

Bank guarantee of Rs.3.00 crore as sublimit of overdraft.

Counter Bank guarantee of Rs.7.00crore and letter of credit of Rs.1.00 crore as sublimit of Bank Guarantee.

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### About Acuité Ratings & Research

Acuité Ratings & Research 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 8,850 credit ratings to various 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 Kanjurmarg, Mumbai.

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