

Press Release
Hindustan Composites Limited

March 08, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	16.00	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	9.00	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	25.00	-	-

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 factors in the stable operating and financial performance of the company marked by the improvement in the operating income, marginal decline in the profitability and the healthy financial risk profile of the company marked by the low gearing levels and healthy debt protection metrics. The company's revenue improved and stood at Rs.232.64 crore in FY2022 compared to revenue of Rs.184.59 crore in FY2021. The growth in the operating income is driven by the increase in the demand for the products led by the increase in demand for the commercial vehicles segment. In 10MFY23, the company registered a turnover of ~Rs.235 crore. The growth in revenues in FY23 is in line with the industry trend. According to ACMA, for H1FY23 the automotive component industry registered a growth of ~34 percent over the first half of the previous year. The ratings are however constrained by the working capital intensive operations of the company as well as the susceptibility to volatility in the financial markets.

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). 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 on account of common management 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.795.94 crore as on March 31, 2022 compared to Rs.686.58 crore as on 31 March, 2021. Out of the total portfolio of Rs. Rs.795.94 crore, investment in equity instruments is Rs.403.17 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. 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 company's financial risk profile stood healthy marked by healthy network, low gearing and healthy debt protection metrics. The tangible net worth of the company stood at Rs.916.67 crore as on 31 March 2022 as against Rs.867.65 crore as on 31 March 2021. The company follows a conservative financial policy with negligible debt on its books. The total debt of the company stood at Rs.0.30 crore as on 31 March 2022. It comprised of long-term debt of Rs.0.19 crore and short-term debt of Rs.0.11 crore as on 31 March 2022. The coverage ratios of the company stood healthy with Interest Coverage Ratio (ICR) of 427.64 times for FY2022 against 166.35 times for FY2021. The Debt Service Coverage Ratio (DSCR) stood at 65.98 times for FY2022 against 34.13 times for FY2021. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 0.09 times for FY2022 as against 0.12 times in FY2021. 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

The company has a good customer profile with Ashok Leyland Limited, Maharashtra State Road Transport Corporation, Eastern Railway and Southern Railway among others being their top customers. 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.759.62 crore as on 31 March, 2022 as against Rs.653.55 crore as on 31 March, 2021. In FY2022, HCL's investment portfolio included ~47 percent in instruments such as bonds and government securities, real estate, preference shares and debentures and the remaining are in the equity instruments as well as private equity. For current investments, the portfolio mainly consists of quoted mutual funds and quoted debentures. Acuité believes that HCL's investment decisions will remain a key rating monitorable in the medium term due to the risk of volatility in the stock markets.

Weaknesses

Working capital intensive operations

The company's operations are working capital intensive as evident from Gross Current Asset (GCA) of 112 days as on March 31, 2022, as against 223 days as on March 31, 2021. The inventory levels stood at 25 days for FY2022 compared against 28 days for FY2021. The inventory consists of majorly the raw materials required for the manufacturing of the product.

Average inventory holding period for the raw materials is around 1 month. The debtor days stood at 73 days for FY2022 against 91 days for FY2021. The average credit period allowed to the customers is around 62-63 days. The creditor days of the company stood at 138 days for FY2022 as against 159 days for FY2021. The average credit period received from the customers is around 65 days. The average utilization of the bank limits is ~20 percent for the last six months ended December '2022. 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.

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 an adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.30.17 crore in FY2022 compared against maturing debt obligations of Rs.0.38 crore over the same period. The cash accruals of the company are estimated to remain in the range of Rs.36.50-43.60 crore during 2023-25 period while its maturing debt obligations is estimated to be in the range of Rs.0.01-0.06 crore during the same period. The company maintains unencumbered cash and bank balances of Rs.2.46 crore as on March 31, 2022. The current ratio stood at 2.13 times as on March 31, 2022.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	232.64	184.59
PAT	Rs. Cr.	21.60	19.72
PAT Margin	(%)	9.29	10.68
Total Debt/Tangible Net Worth	Times	0.00	0.00
PBDIT/Interest	Times	427.64	166.35

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

None

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>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
12 Jan 2022	Secured Overdraft	Long Term	6.00	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	6.00	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	4.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	9.00	ACUITE A2+ (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	9.00	ACUITE A2+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A- Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE A- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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