

Press Release
Hindustan Composites Limited
June 05, 2024
Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	16.00	ACUITE A Stable Upgraded	-
Bank Loan Ratings	9.00	-	ACUITE A1 Upgraded
Total Outstanding Quantum (Rs. Cr)	25.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE A**' (read as **ACUITE A**) from '**ACUITE A-**' (read as **ACUITE A minus**) and its short-term rating to '**ACUITE A1**' (read as **ACUITE A one**) from '**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 Upgrade

The rating upgrade takes into account improvement in the business and financial risk profile of HCL. HCL primarily has two revenue segments, manufacturing composite products and treasury business. The company's income from the composite segment has recorded a consistent improvement over the last three years as it improved from Rs.185.11 Cr. in FY2022 to Rs. 250.68 Cr. in FY2024. The profitability levels have also recorded a similar trend as segment profitability improved from 1.97% in FY2022 to 7.81% in FY2024.

In case of the treasuring business, the investment portfolio has grown from Rs. 795.95 Cr. in FY2022 to Rs.872.17 Cr. in FY2024. The portfolio value was Rs. 686.59 Cr. in FY2021. The portfolio value grew at a CAGR of 8.30 percent over the four-year period. Furthermore, the value of investment in debt instruments ranged 55-60% during this period and balance in equity instruments. The equity instruments are majorly investments made in quoted/unquoted equity shares vide fund houses. Acuite believes that the prevailing investment portfolio structure shields the portfolio from highly volatile nature of capital markets and will generate stable revenues over the period of investment.

Going forward, the company's ability to scale up its manufacturing operations while generate stable returns on its investment portfolio will be a key rating monitorable.

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.

About the Group

The Hindustan Composites group consists of Hindustan Composites Limited and Compo Advics India Private Limited. Compo Advics India Private Limited is a joint venture wherein Hindustan Composites Limited has 49% stake.

Unsupported Rating

Not Applicable

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has considered the consolidated business and financial risk profile of HCL along with its joint venture Compo Advics (India) Private Limited on account of common management to arrive at the rating.

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.807.08 crore as on March 31, 2023 compared to Rs.795.95 crore as on 31 March, 2022. Out of the total portfolio of Rs. Rs.807.08 crore, investment in equity instruments is Rs. 375.22 crore and the remaining in debt instruments. As on March 31, 2024 the portfolio value rose to Rs. 872.17 Cr. 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

Hindustan Composites Limited has a healthy financial risk profile marked by healthy net worth and comfortable debt protection metrics. The Net worth of the company stood at Rs. 920.02 Cr. in FY23 as against Rs. 916.67 Cr. The total debt of the company stood at Rs. 1.01 crore as on 31 March 2023. It comprised of long-term debt of Rs. 0.12 crore and short-term debt of Rs.0.89 crore as on 31 March 2023. The interest coverage ratio of the company stood at 327.17 times in FY23 against 427.64 times in FY22. DSCR stood at 286.73 times in FY2023 against 65.98 times in FY2022. The Interest coverage and DSCR are estimated to remain around ~330.83 times and ~281.87 times respectively for the period FY2024.

Acuité believes that going forward the financial risk profile of the company will improve backed by steady accruals and no major debt funded capex plans.

Weaknesses

Moderate Working capital operations

Hindustan Composites Limited has moderate working capital operations with gross current asset (GCA) days standing at 98 Days on March 31, 2023 as against 114 Days on March 31, 2022. The inventory days stood at 20 days in FY23 as against 25 days in FY22. The debtor days stood at 61 Days in FY23 as against 73 Days in FY22. The average credit period allowed to customers is in the range of 55- 60 days. The creditor days of the firm stood at 101 Days in FY23 as against 138 Days in FY22. The average credit period received from customers is in the range of 110- 120 days.

Acuite believes that the working capital operations of the group will improve over the medium term.

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.

Liquidity Position

Adequate

Hindustan Composites Limited's liquidity position is adequate, marked by high net cash accruals against no maturing debt obligations for the same period. The company generated cash accruals of Rs. 36.20 Cr. in FY2023 against no repayment obligations. The estimated net cash accruals of the company range between ~Rs. 44-55 Cr. for FY2024-FY2026 against no maturing debt obligation for the same period. The cash and bank balance of the company stood at Rs. 1.03 Cr. as on March 31, 2023. The current ratio stood at similar levels of 3.76 times in FY23 as against 3.87 times in FY22. The working capital operations of HCL is moderately marked by its Gross Current Asset (GCA) days of 98 Days in FY23 as against 114 Days in FY22 on account of lower receivable cycle during the same period. Acuite believes that the liquidity position of the Company would remain adequate on account of increasing net cash accruals against negligible repayment obligations.

Outlook: Stable

Acuite believes HCL will maintain a stable business risk profile over the medium term. 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	282.69	232.64
PAT	Rs. Cr.	27.47	21.60
PAT Margin	(%)	9.72	9.29
Total Debt/Tangible Net Worth	Times	0.00	0.00
PBDIT/Interest	Times	327.17	427.64

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

Not Applicable

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.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
08 Mar 2023	Bank Guarantee/Letter of Guarantee	Short Term	9.00	ACUITE A2+ (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	10.00	ACUITE A- Stable (Reaffirmed)
	Secured Overdraft	Long Term	6.00	ACUITE A- Stable (Reaffirmed)
12 Jan 2022	Bank Guarantee/Letter of Guarantee	Short Term	9.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	4.00	ACUITE A2+ (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	6.00	ACUITE A- Stable (Reaffirmed)
	Secured Overdraft	Long Term	6.00	ACUITE A- Stable (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 avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	9.00	ACUITE A1 Upgraded (from ACUITE A2+)
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE A Stable Upgraded (from ACUITE A-)
ICICI Bank Ltd	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	6.00	ACUITE A Stable Upgraded (from ACUITE A-)

***Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)**

1. Hindustan Composites Limited
2. Compo Advics India Private Limited

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in	Varsha Bist Associate Vice President-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Dheeraj Salian Associate-Rating Operations Tel: 022-49294065 dheeraj.salian@acuite.in	

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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