

Press Release

HEMA AUTOMOTIVE PRIVATE LIMITED

December 21, 2017

Rating Assigned



| | |
|-------------------------------------|------------------------------|
| Total Bank Facilities Rated* | Rs. 50.00 Cr. |
| Long Term Rating | SMERA BBB- / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

SMERA has assigned a long term rating of **SMERA BBB- (read as SMERA triple B minus)** to the Rs. 50.00 crore bank facilities of Hema Automotive Private Limited (HAPL). The outlook is '**Stable**'.

The Delhi-based Hema Automotive Private Limited (HAPL) incorporated in 2015 was promoted by Mr. Chandresh Jajoo and Mr. Adarsh Kumar Yadav (Directors). The company manufactures auto components (stand, body chassis etc.) for Hero MotoCorp Limited at Neemrana, Rajasthan.

Key Rating Drivers

Strengths

- Experienced management, moderate track record of operations**

The group was incorporated in 1987 with Hema Engineering Industries Limited as the flagship entity. The promoters possess experience of around three decades in the auto ancillary industry. The company has been catering to the Hero group in Ludhiana since 1980 for supply of cycle parts.

- Above average financial risk profile**

The financial risk profile is marked by healthy net worth, modest gearing and moderate debt protection measures. The net worth levels stood at around Rs.343.42 crore on 31 March, 2017 (Provisional) as against Rs.301.38 crore on 31 March, 2016. The net worth includes unsecured loans of Rs.151.95 crore as on 31 March, 2017 (Provisional) as compared to Rs.139.01 crore in the previous year from promoters which are subordinated to bank debt. Hence, SMERA has treated them as quasi equity. The gearing stood at a moderate 1.33 times as on 31 March, 2017 (Provisional) as against 1.17 times in the previous year. The moderate gearing is on account of healthy networth of Rs.343.42 crore as against total debt of Rs.457.92 crore in FY2016-17. The total debt includes term loan of Rs. 229.99, unsecured loans of Rs.9.19 crore and working capital limit of ~ Rs.218.74 crore. The interest coverage ratio stood modest at 1.85 times in FY2016-17 (Provisional) as well as FY2015-16 respectively. The net cash accrual by total debt (NCA/TD) stood at 0.12 times in FY2017 (Provisional) compared to 0.13 times in FY2016. The debt to service coverage ratio (DSCR) stood at 1.16 times in FY2017 (Provisional) compared to 1.22 times in FY2016.

- Healthy scale of operations**

The group reflects healthy scale of operations marked by operating income of Rs.1179.62 crore in FY2017 (Provisional) as compared to Rs.1089.70 crore in FY2016. The increase in revenue is on account of repeat orders for Hero MotoCorp Limited.

Weaknesses

- Limited bargaining power with customers and revenue concentration risk**

Since the company caters primarily to auto companies/OEMs, there exists limited bargaining power with the company. However, the company does have a mechanism wherein any revision in the raw material prices is reset by the OEMs on a quarterly basis. Also, the sales of the company remain largely concentrated in this segment. However, the same is mitigated to a large extent since the group has been dealing with these clients since inception.

- **Exposure to changes in regulations**

The group is exposed to unfavorable changes in regulations that can adversely impact business and the financial risk profile of the group

Analytical Approach

While assigning the rating, SMERA has consolidated the operational and financial risk profiles of Hema Automotive Private Limited (HAPL) and Hema Engineering Industries Limited (HEIL). The consolidation is in view of the common management and similarities in the lines of business. The group is herein referred to as the Hema Group (HG).

Outlook: Stable

SMERA believes that the group will maintain a stable outlook in the medium term on account of its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case the group registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of lower-than expected revenue, profitability or further debt-funded capital expenditure undertaken by the company weakening the financial risk profile.

About the Group

The group incorporated in 1987 is engaged in the manufacturing of auto components stand, body chassis etc. for OEMs such as Hero MotoCorp, TVS Motor, Royal Enfield, Yamaha to name a few. It is led by Mr. Chandresh Jajoo and Mr. Adarsh Kumar Yadav.

About the Rated Entity - Key Financials

| | Unit | FY17 (Provisional) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|--------------------|---------------|---------------|
| Operating Income | Rs. Cr. | 1179.62 | 1089.70 | 901.10 |
| EBITDA | Rs. Cr. | 124.60 | 114.64 | 90.82 |
| PAT | Rs. Cr. | 19.44 | 16.53 | 13.65 |
| EBITDA Margin | (%) | 10.56 | 10.52 | 10.08 |
| PAT Margin | (%) | 1.65 | 1.52 | 1.52 |
| ROCE | (%) | 4.64 | 4.33 | 3.91 |
| Total Debt/Tangible Net Worth | Times | 1.33 | 1.17 | 1.16 |
| PBDIT/Interest | Times | 1.85 | 1.85 | 1.78 |
| Total Debt/PBDIT | Times | 3.68 | 3.07 | 3.39 |
| Gross Current Assets (Days) | Days | 192 | 165 | 201 |

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>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure - Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|-----------------------------|------------------|----------------|----------------|-----------------------------|---------------------|
| Working Capital Demand Loan | Not Applicable | Not Applicable | Not Applicable | 5.00 | SMERA BBB- / Stable |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 38.00 | SMERA BBB- / Stable |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 7.00 | SMERA BBB- / Stable |

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ABOUT SMERA

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