

Press Release

HANSA METALLICS LIMITED

March 09, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 103.81 Cr.
Long Term Rating	SMERA BBB-/ Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-'** (read as **SMERA triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 103.81 crore bank facilities of HANSA METALLICS LIMITED. The outlook is '**Stable**'.

Hansa Metallics Limited incorporated in the year 1997 is engaged in the manufacturing of ERW precision tubes. The manufacturing facility of the company is located in Lalru (Punjab) and has an installed capacity of 60000 MT per annum. Company caters to clients in Cycle and Auto Industry which include Hero Cycles Ltd, Mapco Industries among others.

Key Rating Drivers

Strengths

- **Experienced management**

The company is headed by Mr. Surendra Garg, who possess more than two decades of experience in the same line of business. HML backed by its experienced management, has maintained healthy relations with its customers and suppliers.

- **Improvement in operating income and profitability**

HML has reported a turnover of Rs. 195 crore for the current year April to January 2018 and expects to achieve approximately Rs. 225 crore for FY2018. However due to lower utilization of installed capacity there was a decline in revenue to Rs.162.58 crore in FY2017 from Rs.166.91 crore in the previous year. The operating margins of the company declined to 12.39 per cent in FY2017 as against 12.94 per cent in FY2016. However PAT margins improved to 2.08 per cent in FY2017 from 1.90 per cent in FY2016. The profitability of the company is expected to improve in the current year backed by the increasing demand of the company's product. The outlook of end user industry for ERW tubes is also expected to be favorable.

Weaknesses

- **Moderate financial risk profile and liquidity profile**

HML has moderate financial risk profile marked by net worth of Rs.54.71 crore as on 31 March, 2017 which improved from Rs.51.33 crore as on 31 March, 2016. Total debt of Rs. 95.25 crore comprises term loans of Rs.8.00 crore, unsecured loans of Rs.13.90crore, and working capital facilities of Rs. 73.35 crore as on 31 March 2017. Interest Coverage Ratio (ICR) stood at 1.72 times for FY 2017 as against 1.65 times in FY2016. Debt Service Coverage Ratio (DSCR) stood at 0.97 times for FY 2017 as against 0.86 times in FY2016. The Gross Current Asset (GCA) days stood at 267 in FY2017 as against 242 days in FY2016 which is high. The GCA days included debtor days of 93 days in FY2017 compared to 81 days in FY2016, while the inventory days stood at 98 days in FY2017. Going forward, SMERA expects firm to maintain the financial risk profile.

- **Competitive and fragmented industry**

The company operates in a highly competitive ERW tube industry thereby putting pressure on the Bargaining power. The performance of the company is also impacted by large number of players in the ERW

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Pipe segment.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of HML to arrive at the rating

Outlook: Stable

SMERA believes HML will maintain a 'Stable' business risk profile in the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm registers higher than expected revenue and liquidity position while maintaining profitability margins. Conversely the outlook will be revised to 'Negative' in case of significant decline in firm's revenue and profitability or in case of higher than expected working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	162.58	166.91	198.64
EBITDA	Rs. Cr.	20.14	21.60	19.38
PAT	Rs. Cr.	3.38	3.17	3.60
EBITDA Margin	(%)	12.39	12.94	9.76
PAT Margin	(%)	2.08	1.90	1.81
ROCE	(%)	10.87	11.84	21.25
Total Debt/Tangible Net Worth	Times	1.74	1.96	2.11
PBDIT/Interest	Times	1.72	1.65	1.74
Total Debt/PBDIT	Times	4.73	4.66	5.25
Gross Current Assets (Days)	Days	267	242	202

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	77.00	SMERA BBB- / Stable
Corporate Loan	Not Applicable	Not Applicable	Not Applicable	0.24	SMERA BBB- / Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	17.50	SMERA A3
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.07	SMERA A3

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ABOUT SMERA

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