

Press Release

Hind Filters Limited

May 17, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 5.00 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 BBB**) and short term rating of '**SMERA A3+**' (read as **SMERA A three plus**) on the Rs. 5.00 crore bank facilities of Hind Filters Limited. The outlook is '**Stable**'.

Hind Filters Limited (HFL) incorporated in 1973 is engaged in the manufacturing of Acetate cigarette filter rods (in regular, slim and ultra slim sizes) and flavored filter rods (Menthol, Vanilla, Strawberry, Raspberry, Lemon, Sourplum, Pear and Apple etc.), Dual Charcoal & Recessed Dual Filter Rods in Regular Sizes for all major brands of Cigarettes in India. The company is ISO 9001/2015 & ISO 14001/2015 certified by Bureau Veritas Certification, U.K. The installed capacity of the company is 4850 million rods.

Key Rating Drivers

Strengths

• Experienced Management and Long track record of operations

Hind Filters Limited promoted by Mr. Ravi Mohan has an experience of more than four decades in the industry. Mr. M.M Pisal, the president of the company having more than three decades of experience is associated with the company since 1976. Backed by their experience the company is able to maintain relationship with the leading cigarette companies in India i.e. ITC Ltd. and Godfrey Phillips India Ltd (GPI) from last four decade.

• Comfortable working capital Management

HFL's working capital management is comfortable marked by Gross Current Asset (GCA) of 71 days in FY2017 compared to 117 days in FY2016. The GCA days are comfortable on account of Debtor of 21 days, Inventory of 45 days and creditor of 58 days. The working capital limit utilization is almost nil. SMERA believes that the efficient working capital management will be crucial in order to maintain a stable credit profile.

• Strong financial risk profile

HFL has a healthy financial risk profile marked by net worth of Rs. 66.71 crore as on 31 March, 2017 compared to Rs. 61.60 crore as on 31 March, 2016. The gearing remains stagnant at 0.01 times as on 31 March, 2017 and 31 March, 2016. The interest coverage ratio stood at 86.89 times in FY2017 as against 50.82 times in FY2016. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.15 times as on 31st March, 2017 as against 0.14 times in FY2016. Net Cash Accruals/Total Debt (NCA/TD) stood at 6.45 times as on 31st March, 2017 as against 4.30 times in FY2016. Going forward, SMERA expects the company to maintain its financial risk profile and improve its net worth in the absence of major debt funded capex plan.

Weaknesses

• Foreign exchange fluctuation risk

The company imports around 90% of its raw materials majorly from Japan, Korea, USA, Switzerland and

Vietnam exposed the company to foreign exchange fluctuation risk. The company also exports to UAE countries which provides in natural hedge though to a limited extent.

• Declining trend of Revenues

The operating income is Rs. 45.08 crore in FY2017, Rs. 47.00 crore in FY2016 and Rs. 69.27 crore in FY2015. This is due to steep hikes in taxation and the impact of stringent regulatory measures covering cigarette production, packaging/ labeling results in lower demand for cigarette filter rods.

• Customer Concentration Risk

Almost 80% of the Acetate filter rods have been sold to ITC and GPI which lead to customer concentration risk.

Analytical Approach

SMERA has considered standalone financial and business risk profile of Hind Filters Limited.

Outlook: Stable

SMERA believes HFL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues and profit margins. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	45.08	47.00	69.27
EBITDA	Rs. Cr.	3.09	1.33	3.30
PAT	Rs. Cr.	6.05	3.65	5.22
EBITDA Margin	(%)	6.85	2.82	4.76
PAT Margin	(%)	13.41	7.76	7.53
ROCE	(%)	12.91	10.00	25.58
Total Debt/Tangible Net Worth	Times	0.01	0.00	0.00
PBDIT/Interest	Times	86.89	50.82	62.04
Total Debt/PBDIT	Times	0.08	0.03	0.03
Gross Current Assets (Days)	Days	71	117	96

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

Not Applicable

Any other information

None

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	3.40	SMERA BBB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.60	SMERA A3+

Contacts

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ABOUT SMERA

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