

Press Release

Hindustan Fluorocarbons Limited

January 04, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 6.03 Cr.
Long Term Rating	ACUITE C
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE C**' (read as **ACUITE C**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 6.03 crore bank facilities of Hindustan Fluorocarbons Limited (HFL).

HFL is a Hyderabad based listed company incorporated in 1983. The company started commercial production in 1987 and is engaged in the manufacture of Poly Tetra Fluoro Ethylene (PTFE) with 500 metric tons per annum (MTPA) and Chloro Di Fluoro Methane (CFM-22) with 1265 MTPA. Its manufacturing facility is located at Rudraram, Sanga Reddy District in Telangana State. It is a subsidiary company of Hindustan Organic Chemicals Limited (HOCL).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the HFL to arrive at this rating.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

HFL is a subsidiary of HOCL (Government of India owned entity). The company started commercial operations in 1987 to manufacture PTFE and CFM-22. The company is managed by well experienced team lead by Mr. Tukaram Shankar Gaikwad, Mr. Subodh Balkrishna Bhide and others. The two products manufactured by the company have steady demand reflected in stable revenue profile over the past three years. Further, the company is in plans of developing new products to diversify the revenue profile and reduce concentration. Acuité believes that HFL will benefit from the experienced management in the industry over the medium term.

- **Moderate working capital cycle**

Working capital cycle of the company is moderate marked by moderate Gross Current Assets (GCA) at 96 days in FY2018 as against 114 days in FY2017. This is mainly due to comfortable debtor cycle of about one month and moderate inventory cycle of around two months period for the last six months through FY2018. Further, working capital limit utilisation is about 75-80 percent for the last six months through FY2018. Acuité believes that working capital cycle is expected to continue at similar levels over the medium term as the company is not planning for any significant stocking levels or new markets.

Weaknesses

- **Delays in debt servicing**

The rating reflects the delays in meeting debt obligations (unrated). The company has defaulted in repayment of dues to Government of India, Ministry of Chemical & Fertilizers (Department of Chemicals and Petro Chemicals). Further, there are term loan repayment and interest payment dues of Government plan loan and HOCL.

- **Modest scale of operations**

Revenues of the company remained modest for the last three years through FY2018. Revenues stood at Rs.37.16 crore in FY2018 at 100 percent capacity utilisation as against Rs.34.18 crore in FY2017 and Rs.35.55 crore in FY2016. For April-September 2018, the company reported revenues of Rs.16.00 crore.

Further, revenues are expected to be in the similar range as the plant capacity is fully utilised. Acuite believes that with modest capacity compared to the other players in the industry, revenues are expected to be in the same range over the medium term.

• Weak financial risk profile

Financial risk profile of the company is weak reflected in the negative net worth of Rs.70.33 crore in FY2018 as against negative net worth of Rs.65.63 crore in FY2017. This is mainly on account of accumulated losses due to uneconomic size of the plant capacity, besides three-decade old plant and high administrative costs. The company has turned into cash profit in FY2018 with improvement in the realisations over the last two years; its operating margins have improved to 9.9 per cent in FY2018 against negative margins of 18.7 percent in FY2016. HFL enjoys fund based limits of Rs.5.15 crore, and non-fund based limit of Rs.0.88 crore. The debt protection metrics of interest coverage ratio is moderate at 1.24 times, though net cash accrual to total debt is weak at 0.02 times in FY2018. Acuite believes that with improving realisations from its existing products, and cash profit generation, debt protection metrics of HFL is expected to improve over the medium term, though financial risk profile continues to be weak mainly driven by negative net worth.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	37.16	34.18	35.55
EBITDA	Rs. Cr.	3.67	1.85	-6.63
PAT	Rs. Cr.	-0.77	-3.85	-11.11
EBITDA Margin	(%)	9.89	5.41	-18.65
PAT Margin	(%)	-2.08	-11.25	-31.27
ROCE	(%)	-10.16	3.47	173.76
Total Debt/Tangible Net Worth	Times	-0.67	-0.70	-0.81
PBDIT/Interest	Times	1.24	0.29	-1.82
Total Debt/PBDIT	Times	12.73	47.51	-8.49
Gross Current Assets (Days)	Days	96	114	109

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

CRISIL, vide its press release dated September 28, 2018 had denoted the rating of Hindustan Fluorocarbons Limited as 'CRISIL C / CRISIL A4; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'CRISIL C /CRISIL A4' vide its press release dated September 25, 2017.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.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	5.15	ACUITE C
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.38	ACUITE A4
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4

Contacts

Analytical	Rating Desk
<p>Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in</p> <p>Naveen Papisetty Analyst - Rating Operations Tel: 022-67141148 naveen.papisetty@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.