

Press Release

Hindustan Fluorocarbons Limited

February 29, 2020

Rating Upgraded



Total Bank Facilities Rated*	Rs.6.03 Cr.
Long Term Rating	ACUITE BB / Stable (Upgraded from ACUITE C)
Short Term Rating	ACUITE A4+ (Upgraded from ACUITE A4)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE C**' (read as **ACUITE C**) and short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.6.03 crore bank facilities of Hindustan Fluorocarbons Limited (HFL). The outlook is '**Stable**'.

The rating upgrades takes into account the majority ownership of Hindustan Organici Chemicals Limited, a central government enterprise in HFL, the strategic importance of the Organic chemicals industry to the Indian economy, Improvement in scale of operations and profitability margins of the company. However, the rating is constrained due to its persistently weak financial risk profile and its inability to service the outstanding loans from HOCL, its primary shareholder and from Government of India (GoI). While the liquidity position of the HFL remains challenging, Acuite has noted that company has been able to service its existing obligation on the bank facilities in timely manner.

Hindustan Fluorocarbons Limited (HFL) is a Hyderabad based company incorporated in 1983. The company started commercial production in the year 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 located at Rudraram, Sanga Reddy Dist. in Telangana State. It is a subsidiary company of Hindustan Organic Chemicals Limited (HOCL).

Analytical Approach

Acuite has considered standalone business and financial risk profile of HFL to arrive at the 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 Gaikwad, Mr. Subodh 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.

Acuite believes that HFL will benefit from the experienced management and its association with HOCL over the medium term.

Weaknesses

- **Modest scale of operations**

Revenues of the company remained modest for the last three years through FY2019. Revenues stood at Rs.38.95 crore in FY2019 as against Rs.37.16 crore in FY2018 and Rs.34.18 crore in FY2017. From April - September 2019, the company reported revenues of Rs.30.92 crore. Further, revenues are expected to be in the similar range in FY20.

• **Weak financial risk profile**

Financial risk profile of the company is weak reflected in negative networth of Rs.74.98 crore in FY2019 as against 70.33 crore in FY2018. This is mainly on account of accumulated losses. Debt protection metrics of interest coverage ratio and net cash accruals to total debt is moderate at 2.02 times and 0.06 times respectively in FY2019 vis a vis 1.24 times and 0.02 in FY 2018 due to increase in EBITDA in absolute terms.

• **Working capital intensive nature of operations**

Elongated Working capital cycle of the company marked by Gross Current Assets (GCA) at 126 days in FY2019 as against 96 days in FY2018. This is mainly due to increase in receivables. Further, working capital limit utilization is about 90-95 percent for the last six months through January 2020. Acuite believes that ability of the company to manage its working capital operations will be critical.

Material Covenants:

None

Liquidity Position: Stretched

Company has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.3.20 crore in FY19, while its maturing debt obligations were in the range of Rs.40.84 crore over the same period. The cash accruals of the company are estimated to remain around Rs.2.82 crore while its debt obligations are Rs.47.77 during the same period. The debt obligations are related to HOCL and Gol. However, the company is able to repay its debt obligations to the bank in timely manner. The company's current ratio stood at 0.12 times as on March 31, 2019. GCA days stood at 126 days in FY2019. Acuite believes that the liquidity of the company is likely to remain weak over the medium term on account of debt repayments over the medium term.

Outlook: Stable

Acuite believes that HFL will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to its extensive experience of promoters and its association with HOCL. The outlook may be revised to 'Positive', if the Company demonstrates substantial and sustained growth in its revenues from the current levels while improving its capital structure. Conversely, the outlook may be revised to 'Negative' if the company generates lower-than-anticipated cash accruals or sharp decline in revenues or operating margins, or deterioration in working capital leading to impact its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	38.95	37.16
PAT	Rs. Cr.	1.70	(0.77)
PAT Margin	(%)	4.37	(2.08)
Total Debt/Tangible Net Worth	Times	(0.69)	(0.67)
PBDIT/Interest	Times	2.02	1.24

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

None

Any other information

None

Applicable Criteria

- Infrastructure Entities: <https://www.acuite.in/view-rating-criteria-51.htm>
- 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>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
04-Jan-19	Cash Credit	Long Term	5.15	ACUITE C (Assigned)
	Letter of Credit	Short Term	0.38	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Assigned)

***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 BB/Stable (Upgraded from ACUITE C)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.38	ACUITE A4+ (Upgraded from ACUITE A4)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+ (Upgraded from ACUITE A4)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-4929041 aditya.gupta@acuite.in Bhavani Nagidi Rating Analyst - Rating Operations Tel: 040-40042327 nagidi.bhavani@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

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.