

Press Release

Hindustan Fibre Glass Works (HFGW)

27 March, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating to '**ACUITE A3**' (read as **ACUITE A three**) to the Rs.25.00 crore of bank facilities of Hindustan Fibre Glass Works (HFGW). The outlook is '**Stable**'.

HFGW was founded in 1984 as a partnership firm by Mr. Shankar Lal Patel, Mr. Ashish Patel, Mr. Anupam Patel and Mr. Harsh Patel at Kolkata (West Bengal). HFGW is engaged in interior furnishing work for railway coaches. The firm manufactures all types of fibre-reinforced polymer (FRP) products such as paneling, gear case, door paneling, modular toilet and partition frames, seats and components, and driver's cabin, among others which are fitted to railway coaches. Later in 1998, the firm started its new unit at Vadodara (Gujarat). The firm, being an approved vendor, participates in tenders floated by various railway departments.

Analytical Approach:

Acuite has considered standalone business and financial risk profile of HFGW while arriving at the rating.

Key Rating Drivers:

Strengths

Experienced management

The firm was established in 1984 by Mr. Govind Bhai Patel and Mr. Shanker Patel with their first unit in Kolkata that manufactures railway windows and frames for the Indian Railway. The firm started its second unit in Vadodara in 1998. The second unit is engaged in interior furnishing of railway coaches. The partners have more than three decades of experience in this industry which have enabled them to establish comfortable relationships with their key suppliers and various railway departments.

Comfortable financial risk profile

The comfortable financial risk profile of the firm is marked by moderate net worth, comfortable gearing and strong debt protection metrics. The net worth of the firm stood moderate at Rs.16.42 crore in FY2019 as compared to Rs.11.17 crore in FY2018. This improvement in networth is mainly due to retention of current year profit. There have been regular withdrawal of capital by the partners and going forward, the amount of capital withdrawal would be a key monitorable. The gearing of the firm stood comfortable at 1.20 times as on March 31, 2019 when compared to 2.55 times as on March 31, 2018. The total debt of Rs 19.69 crore in FY2019 consists of long term loan of Rs.2.88 crore, short term loan of Rs.16.21 crore, and unsecured loan from promoters of Rs.0.67 crore. The total outside liability against tangible networth (TOL/TNW) stood at 5.06 times in FY2019 as against of 7.50 times in previous year. Acuite expects the TOL/TNW levels of the firm to improve over the medium term due to their steady accruals. However, any deterioration in the TOL/TNW levels to above 4.5 times would be a key rating sensitivity factor. Interest coverage ratio (ICR) stood at 8.75 times in FY2019 as against 4.90 times in FY 2018. The debt service coverage ratio also stood at 5.11 times in FY2019 as against of 3.01 times in FY2018. The net cash accruals to total debt (NCA/TD) stood at 0.60 times in FY2019 as compared to 0.23 times in the previous year. Acuite believes that the financial risk profile of the firm will be maintained over the medium term backed by no major debt funded capex plan subject to a cap on withdrawal of capital.

Healthy operating revenue and profitability

The operating revenue of the firm stood healthy at Rs.250.81 crore in FY2019 as against of Rs.206.76 crore in FY2018. The firm has booked Rs.313.80 crore till 31st January 2020 (Prov.). Acuite believes the revenue of the firm will be healthy over the medium term backed by healthy order book of Rs. 596.97 crore as on February 2020 from Indian Railway. The operating profit margin of the firm has improved and stood healthy at 7.32 per cent in FY2019 as compared to 5.80 per cent in previous year. The increase in profitability is mainly on account of decrease in job work expenses during the year. Moreover, the operating margin stood healthy at 7.76 per cent till 31st Jan 2020 (Prov.). The net profitability of the firm has also increased to 4.00 per cent in FY2019 as compared to 2.35 per cent in previous year in line with the improvement in operating profitability.

Weaknesses

Customer Concentration

The firm has derived its entire revenues from the Indian Railways during the past three years ended FY'2019 which exposes it to significant customer concentration risk. The high customer concentration renders the revenue growth and profitability susceptible to the growth plans, procurement and credit policies of its key customer.

Rating Sensitivity

- Scaling up of operations while maintaining their profitability margin.
- Further deterioration in liquidity position of the firm.

Material Covenant

None

Liquidity Position: Adequate

The firm has adequate liquidity marked by healthy net cash accruals of Rs.11.87 crore as against Rs.0.55 crore of yearly debt obligations. The cash accruals of the firm are estimated to remain in the range of around Rs. 17.63 crore to Rs. 24.17 crore during 2020-22 against Rs.0.55 crore repayment obligations. The gross current asset days stood moderate at 84 days in FY2019. The bank limit is 100 per cent utilized by the firm as on six months ended 29th February 2020. The current ratio of the firm stood at 1.23 times as on March 31, 2019. Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of healthy cash accruals against long debt repayments over the medium term.

Outlook: Stable

ACUITE believes that HFGW will maintain a stable outlook over the medium term owing to its promoters' extensive experience and healthy financial risk profile. The outlook may be revised to 'Positive' if the company registers more than expected revenues while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' if the firm fails to achieve the expected revenue or the liquidity position deteriorates further.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	250.81	206.76
PAT	Rs. Cr.	10.02	4.85
PAT Margin	(%)	4.00	2.35
Total Debt/Tangible Net Worth	Times	1.20	2.55
PBDIT/Interest	Times	8.75	4.90

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

None

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-04.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
08-Jan-2019	Cash Credit	Long Term	14.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	2.88	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	7.00	ACUITE A3 (Assigned)
	Proposed Bank Guarantee	Short Term	1.12	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BBB-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.88	ACUITE BBB-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A3 (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.12	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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