

Press Release

Hariom Industries Limited

D-U-N-S® Number: 67-548-3442

February 06, 2019

Rating Assigned



| | |
|-------------------------------------|-------------------------------|
| Total Bank Facilities Rated* | Rs. 24.00 Cr. |
| Long Term Rating | ACUITE BBB- / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 24.00 crore bank facilities of Hariom Industries Limited (HIL). The outlook is '**Stable**'.

Hariom Industries Limited (HIL) is a Kanpur based company incorporated in 2009. The company was promoted by the Mr. Surendra Kumar Gupta, Mr. Virendra Kumar Gupta and Mr. Rajendra Kumar Gupta. HIL is engaged in the manufacturing of Kraft Paper. The company has its manufacturing unit at Kanpur with installed capacity of 36000 MTPA.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

The promoters possess more than two decades of experience in the paper industry. The extensive experience of the management has helped HIL to maintain longstanding relationships with customers and secure repeated orders. Acuite believes HIL's experienced management is expected to support in improvement of the business risk profile over the medium term.

- **Healthy financial risk profile**

The healthy financial risk profile of the company is healthy marked by modest net worth, comfortable gearing and healthy debt protection metrics. The net worth of the company stood at Rs.23.39 crore as on 31 March, 2018 as compared to Rs.21.15 crore in the previous year. The gearing stood comfortable at 0.77 times as on 31 March, 2018 as compared to 0.80 times in the previous year. The total debt of Rs.18.13 crore as on 31 March, 2018 consists of working capital facilities of Rs.13.22 crore and long term debt of Rs.4.91 crore. The interest coverage ratio (ICR) of the company stood comfortable at 3.02 times in FY2018 as compared to 2.47 times in FY2017. The net cash accruals against the total debt stood comfortable at 0.18 times in FY2018 compared to 0.16 times in FY2017. HIL is undergoing a capex of Rs.5.15 crore for addition in capacity to 45000 MTPA which is funded by promoter's capital. The promoter has infused equity of Rs.2.11 crore as on 31 December, 2018. Notwithstanding the benefits of the capex, timely completion and stabilisation will remain key rating sensitivities.

- **Healthy growth in operating income**

The operating income of the company has increased to Rs.86.30 crore in FY2018 from Rs.42.90 crore in FY2017. The healthy growth in revenue is on account of change in product portfolio and increased capacity utilisation levels. Further, the company has achieved the operating income of Rs.81.73 crore in till 31 December, 2018 (Provisional). Acuite believes that the company will be able to sustain the revenue growth in the near to medium term.

Weaknesses

- **Uneven profitability**

The profitability of the company has seen uneven trend for the period under study (FY2016-FY2018). The operating margins declined to 5.66 percent in FY2018 from 10.32 percent in FY2017. The decline was mainly on account of increase of raw material costs and discounts offered for acquiring new customers. Going forward, Acuite believes that the company's ability to scale up its operations while maintaining or improving its margins will be a key rating sensitivity.

- **Exposed to raw material price fluctuation risk**

The key raw material for the company is waste paper procured domestically as well as imported from the USA. The prices of the waste paper are fluctuating and highly dependent on the supply of the paper. This can adversely impact the operating and profitability profile of the company.

- **Competitive Industry**

The recycling industry is highly fragmented with several organised and unorganised players, thereby impacting company's margins.

Liquidity position

HIL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2.36 to 3.31 crore during the last three years through 2016-18, while its maturing debt obligations were in the range of Rs.1.00-0.80 crore over the same period. The company's working capital operations have improved marked by gross current asset (GCA) days of 118 in FY2018. The cash credit limit in the company remains utilized at ~90 percent during the last 6 months ended December 2018. The current ratio of the company stood moderate at 1.31 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuite believes that HIL will maintain a 'Stable' business risk profile in the medium term on account of its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case of achieving sustainable growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profit margins or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 86.30 | 42.90 | 48.75 |
| EBITDA | Rs. Cr. | 4.88 | 4.43 | 4.44 |
| PAT | Rs. Cr. | 1.74 | 0.99 | 0.76 |
| EBITDA Margin | (%) | 5.66 | 10.32 | 9.12 |
| PAT Margin | (%) | 2.02 | 2.30 | 1.56 |
| ROCE | (%) | 8.49 | 7.45 | 15.60 |
| Total Debt/Tangible Net Worth | Times | 0.77 | 0.80 | 0.85 |
| PBDIT/Interest | Times | 3.02 | 2.47 | 2.10 |
| Total Debt/PBDIT | Times | 3.66 | 3.77 | 3.78 |
| Gross Current Assets (Days) | Days | 118 | 171 | 145 |

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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 | 20.00 | ACUITE BBB- / Stable (Assigned) |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 4.00 | ACUITE BBB- / Stable (Assigned) |

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About Acuité Ratings & Research:

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