

May 19, 2014

Facilities	Amount (Rs. Crore)	Rating
Packing Credit	10.00*	SMERA A4 (Assigned)
SME Gold Card	1.00	SMERA A4 (Assigned)
Letter of Credit	0.05	SMERA A4 (Assigned)
Bank Guarantee	0.02	SMERA A4 (Assigned)

**Includes cash credit as a sublimit to the extent of Rs.0.05 crore*

SMERA has assigned a rating of '**SMERA A4**' (read as **SMERA A four**) to the abovementioned bank facilities of H. B. Gum Industries Private Limited (HBGIPL). The rating is constrained by the company's uneven revenue stream and highly concentrated customer base. The rating is also constrained by the company's exposure to agro-climatic risk and raw material price volatility. However, the rating is supported by the company's long track record of operations, experienced management, comfortable coverage indicators and sound liquidity position.

HBGIPL, incorporated in 1980, is Gujarat-based company engaged in manufacturing of guar gum powder and other hydrocolloids. HBGIPL has an uneven revenue stream. The company's business operations are highly susceptible to prices and availability of guar seeds. HBGIPL's revenues declined from Rs.100.87 crore in FY2012-13 (refers to financial year, April 01 to March 31) to Rs.33.50 crore (provisional) in FY2013-14 on account of lower sales realization. The company has a highly concentrated customer base as it mainly caters to oil drilling units in USA and UK. However, the aforementioned risk is partly offset by the company's long-standing relations with customers. HBGIPL is exposed to agro-climatic risk. The company's profitability is susceptible to volatility in prices of guar seeds. However, HBGIPL purchases raw material (guar seeds) against confirmed orders, thereby mitigating the impact of raw material price volatility.

HBGIPL benefits from its experienced management. The company's promoters have around three decades of experience in the guar gum industry. HBGIPL's gearing (debt-to-equity ratio) is moderate at 1.76 times as on March 31, 2013. The company has comfortable coverage indicators, as reflected in interest coverage ratio of 3.43 times and cash debt service converge ratio (DSCR) of 2.86 times in FY2012-13. HBGIPL has a sound liquidity position. The company has not utilized its packing credit limit since May 2013.

Rating sensitivity factors

- Improvement in overall financial risk profile
- Increase in scale of operations while achieving comfortable profit margins
- Diversification of customer base
- Debt-funded capex

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About the company

HBGIPL, incorporated in 1980, is a Gujarat-based company promoted by Mr. Kanaiyalal Shah, Mr. Kiran Shah and Mrs. Arvindaben Shah. The overall operations of the company are currently managed by Mr. Bipinchandra Shah, Mr. Kanaiyalal Shah and Mr. Deepak Shah.

HBGIPL is engaged in the manufacturing of guar gum powder and other hydrocolloids. The company has a manufacturing unit in Kalol (Gujarat), with a total installed capacity of 7,200 metric tonnes per annum (MTPA) for guar gum powder.

For FY2012-13, HBGIPL reported profit after tax (PAT) of Rs.3.77 crore on operating income of Rs.100.87 crore, as compared with PAT of Rs.5.48 crore on operating income of Rs.50.08 crore for FY2011-12. The company's net worth stood at Rs.8.55 crore as on March 31, 2013, as compared with Rs.7.12 crore a year earlier.

Contact List:

Media / Business Development	Analytical Contacts	Rating Desk
Virendra Goyal Vice President – SME Sales Tel: +91 22 6714 1177 Cell: +91 99300 74009 Email : virendra.goyal@smera.in Web: www.smera.in	Umesh Nihalani Head – Corporate Ratings Tel: +91-22-6714 1106 Email: umesh.nihalani@smera.in	Tel: +91-22-6714 1170 Email: ratingdesk@smera.in

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