

June 06, 2024

## Hindon Filters (P) Ltd.: Ratings reaffirmed

### Summary of rating action

| Instrument*  | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                 |
|--|--------------------------------------|-------------------------------------|-------------------------------|
| Long-term fund-based –Cash credit                    | 2.00                                 | 2.00                                | [ICRA]BB (Stable); reaffirmed |
| Short-term –Non-fund based – Import letter of credit | 0.50                                 | 0.50                                | [ICRA]A4+; reaffirmed         |
| <b>Total</b>   | <b>2.50</b>                          | <b>2.50</b>                         |                               |

\*Instrument details are provided in Annexure-I

### Rationale

The ratings reaffirmation continues to consider Hindon Filters (P) Ltd.'s (HFPL) comfortable capital structure and coverage indicators owing to healthy operating profits and limited external borrowing with nominal utilisation of working capital limits. The ratings also note vast experience of HFPL's promoters in the filter paper industry, the company's extensive track record of operations, resulting in repeat orders from customers.

The ratings, however, continue to be constrained by the company's small scale of operations with almost full capacity utilisation levels and no expansion plans on cards, its high dependence on base filter paper and susceptibility of profitability to volatile raw material prices and foreign exchange rate fluctuations as it imports a large portion of its raw materials. The ratings also remain constrained by its working capital-intensive nature of business on account of high inventory holding requirements. The ratings also factor in the risks involved due to high customer and supplier concentration risks along with limited geographical diversity for the customers it caters to.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that HFPL will continue to benefit from the experience of its promoters, its track record of operations, repeat orders from its major customers, limited debt levels, and adequate liquidity position.

### Key rating drivers and their description

#### Credit strengths

**Vast experience of promoters and extensive track record of operations** – Mr. M.G. Agarwal, the Promoter and Managing Director of the company, is a graduate from IIT Kanpur and has vast experience in manufacturing parts of paper machinery/ paper machines through his past association with Hindon Engineering Pvt. Ltd. Also, HFPL initiated operations of manufacturing filter paper from April 1985 and the machine was designed by Mr. Agarwal. The company has an established track record of operations in the filter paper industry. Over the years, it has developed healthy relationships with customers and suppliers, as reflected in repeat orders from customers.

**Healthy capital structure and coverage indicators** – The company's capital structure remained healthy, as reflected in its negligible debt level as on March 31, 2024 (provisional) on the back of nominal utilisation of working capital limits, given its healthy cash accruals. Further, the coverage indicators of the company remain strong due to healthy operating profits on account of the niche product category in which the company operates, which is mainly imported otherwise.

**Healthy liquidity profile marked by investments and nominal utilisation of working capital limits** – HFPL's liquidity profile remained healthy, marked by investments in mutual funds and tradeable equity shares, book valued at around Rs. 27 crore as

on March 31, 2024 (provisional) and nominal utilisation of sanctioned working capital limits (around 33%) in the last 12 months ended in April 2024.

### Credit challenges

**Small scale of operations** – The company’s scale of operations remains small, marked by an operating income of Rs. 35.9 crore in FY2024 (provisional), though it has increased at a CAGR of 12% over the last five years. Further, HFPL’s installed manufacturing capacity of base filter paper is almost fully utilised, reflecting limited buffer to grow from its present facility, without any further expansion.

**Product concentration risk with high dependence on a single type of filter paper** – The company is exposed to product concentration risk as it derived 80-90% of its revenue from the sale of base filter paper for the last three fiscals ending in FY2024. Though the product portfolio comprises other type of filter paper, such as cellulose paper, its revenue share remains minimal.

**Susceptibility of profitability to raw material prices and forex fluctuations owing to high imports** – Wood pulp, the key raw material for HFPL, is largely imported from the US. The prices of the same remained volatile over the years and saw a sharp rise in the last fiscal. Hence, the profitability remains susceptible to risks associated with volatility in pulp prices as well as foreign exchange rate fluctuations. Moreover, competition in the sector from unorganised players also remains a concern, which limits the pricing flexibility for HFPL, and is also reflected in a drop in margin in the last two fiscals.

**Working capital intensive nature of business** – The operations of HFPL remained working capital intensive, reflected in NWC/OI of 35% as of FY2024 on account of high inventory holding requirements. The inventory holding days stood high at 168 in FY2024. The company maintains high inventory level to keep an adequate stock of different variants of wood pulp to adequately cover long lead time for its overseas supplies.

**High customer and supplier concentration risks along with low geographical diversity** – HFPL is exposed to customer and supplier concentration risks as almost its entire revenues come from the top ten customers, while 65% of the purchases was made from the top ten suppliers in FY2024. The company is also exposed to geographical concentration risk as a single region in India accounted for ~67% of the sales in FY2024.

### Liquidity position: Adequate

The liquidity of HFPL remained adequate, marked by 33% utilisation of the working capital limits during the last 12 months ending in April 2024, and absence of any external debt. The company also has sufficient investments parked in mutual funds and tradeable equity shares.

### Rating sensitivities

**Positive factors** – ICRA may upgrade HFPL’s ratings, if the entity reports significant increase in its scale, while maintaining healthy profitability levels and debt protection metrics along with adequate liquidity profile on a sustained basis.

**Negative factors** – ICRA may downgrade HFPL’s ratings, if there is any material decline in its scale and profitability metrics or any major debt-funded capex, impacting its liquidity and overall debt protection metrics on a sustained basis.

### Analytical approach

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a>                                  |
| Parent/Group support            | Not Applicable   |
| Consolidation/Standalone        | The ratings are based on the standalone financial profile of Hindon Filters (P) Ltd. |

## About the company

HFPL was incorporated in 1983 by Mr. M.G. Agarwal, Mr. Rajiv Agarwal and Mrs. Seema Agarwal for substituting the import of filter paper. Mr. MG Agarwal, a mechanical engineer from IIT Kanpur, has vast experience in manufacturing paper machinery parts/paper-making machines. HFPL had also set up a pilot machine for making no-cure paper—plain as well as corrugated. Over the years, HFPL has improved its technical expertise to meet the standards of automobile manufacturers. The company has an installed manufacturing capacity for 2,000 MTPA of base filter paper, and additional capacity for no-cure paper and cellulose paper, at its facility, which is 18 km away from Saharanpur, Uttar Pradesh. However, in the current fiscal, the company has stopped manufacturing of no-cure paper, which contributed very little to the overall revenues of the company.

### Key financial indicators (audited)

| HFPL Standalone                                      | FY2022 | FY2023 | FY2024* |
|--|--------|--------|---------|
| Operating income                                     | 27.7   | 35.7   | 35.9    |
| PAT  | 5.1    | 5.5    | 4.3     |
| OPBDIT/OI  | 26.4%  | 19.5%  | 18.4%   |
| PAT/OI   | 18.5%  | 15.5%  | 12.0%   |
| Total outside liabilities/Tangible net worth (times) | 0.1    | 0.1    | 0.1     |
| Total debt/OPBDIT (times)                            | 0.2    | 0.3    | 0.3     |
| Interest coverage (times)                            | 79.3   | 43.9   | 58.6    |

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

| Instrument | Type                    | Current rating (FY2025)  |   |                         | Chronology of rating history for the past 3 years |                         |                         |   |
|------------|-------------------------|--------------------------|---|-------------------------|---|-------------------------|-------------------------|---|
|            |                         | Amount rated (Rs. crore) | Amount outstanding as of Mar 31, 2024 (Rs. crore) | Date & rating in FY2025 | Date & rating in FY2024                           | Date & rating in FY2023 | Date & rating in FY2022 |   |
|            |                         |                          |   | June 06, 2024           | Apr 27, 2023                                      | May 31, 2022            | -                       |   |
| 1          | Cash credit             | Long term                | 2.00  | --                      | [ICRA]BB (Stable)                                 | [ICRA]BB (Stable)       | [ICRA]BB (Stable)       | - |
| 2          | Import letter of credit | Short term               | 0.50  | --                      | [ICRA]A4+   | [ICRA]A4+               | [ICRA]A4+               | - |

### Complexity level of the rated instruments

| Instrument  | Complexity Indicator |
|---|----------------------|
| Long-term fund-based –Cash credit                   | Simple               |
| Short-term –non-fund based –Import letter of credit | Very Simple          |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

| ISIN | Instrument Name                                     | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|---|------------------|-------------|----------|--------------------------|----------------------------|
| NA   | Long-term fund-based –Cash credit                   | NA               | NA          | NA       | 2.00                     | [ICRA]BB (Stable)          |
| NA   | Short-term –Non-fund based –Import letter of credit | NA               | NA          | NA       | 0.50                     | [ICRA]A4+                  |

Source: Company

**Annexure II: List of entities considered for consolidated analysis: Not Applicable**

## ANALYST CONTACTS

**Shamsher Dewan**  
+91 124 4545328  
[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Srikumar Krishnamurthy**  
+91 9884086366  
[ksrikumar@icraindia.com](mailto:ksrikumar@icraindia.com)

**Suprio Banerjee**  
+91 22 6114 3400  
[supriob@icraindia.com](mailto:supriob@icraindia.com)

**Adish Shivaji Mali**  
+91 22 6114 3422  
[adish.mali@icraindia.com](mailto:adish.mali@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.