December 21, 2023

Hindustan Pressings Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based / Term loan	38.10	33.10	[ICRA]BB-(Stable); reaffirmed
Long-term/Short-term – Fund based/non fund based - Working capital facilities	0.00	22.00	[ICRA]BB-(Stable) / [ICRA]A4; reaffirmed
Long-term – Fund based / Working capital facilities	14.00	0.00	-
Short-term – Non-fund based facilities	3.00	0.00	-
Total	**55.10**	**55.10**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings for Hindustan Pressings Private Limited (HPPL or the company) factors in the extensive experience of its promoters in the sheet metal components business and the long associations with reputed customers leading to repeat orders, and thus, revenue visibility. ICRA also notes the increasing share of exports in HPPL's revenue pie (29% in FY2023 from 9% in FY2020), which augurs well for business growth and diversification prospects, while providing comfort to the profitability metrics.

The ratings, however, remain constrained by HPPL's modest scale of operations (with an operating income of Rs. 128.3 crore in FY2023) compared to its peers in a highly competitive sheet metal fabrication industry. With a major portion of its revenues derived from the domestic automotive industry, the company remains exposed to the inherent cyclicality associated with the automotive sector. While the company reported decent revenue growth momentum from FY2021 through FY2023, input cost inflation impacted the profitability to an extent; however, the company was able to transmit some increase in raw material costs to its customers, hence preventing a large decline in operating margins. The ratings remain constrained by the leveraged capital structure characterised by high total outside liabilities/tangible net worth (TOL/TNW) on account of frequent debt-funded capex alongside a modest net worth base. The ratings also continue to reflect the susceptibility of the company's profitability to fluctuations in foreign exchange (forex) rates, wherein any adverse movement in forex could have an impact on the profitability metrics. With a moderate revenue dependence on automotive components used in internal combustion (IC)engines, HPPL's business profile remains exposed to the electrification drive in the automotive industry.

The Stable outlook on the long-term rating reflects ICRA's opinion that HPPL will continue to benefit from the extensive experience of the promoters in the sheet metal components business and its established relationships with tier-1 suppliers and original equipment manufacturers (OEMs) in the domestic and overseas markets.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the sheet metal components business – Mr. Rakesh Mittal, an engineer, is the Managing Director of the company. He has been working with HPPL since 2001 and handles its overall operations. The company benefits from the extensive experience of promoters in the sheet metal components business, reflected in retention of existing and onboarding of new clients over the years.

Long associations with reputed clientele result in repeat orders – HPPL is primarily a supplier of sheet metal enclosures (bending and pressing) and clutch plates (laser cutting and pressing) to tier-1 suppliers of OEMs. It is also a supplier to non-auto component entities catering to the shipping, construction and agricultural equipment sectors. The company has been garnering repeat orders owing to its long-established relationships with its key customers. Further, the lengthy approval process followed for developing suppliers, including tooling expenses incurred during the developmental phase, creates some stickiness with its customers.

Increasing share of exports leading to higher geographic diversification – As part of its geographic diversification strategy, HPPL has been focusing on increasing the share of exports in its revenue pie, and the same has increased steadily to 29% (FY2023) from 9% (FY2020). As exports typically yield better realisation, and thus, better margins compared to domestic products, the increasing share of exports in HPPL's revenue pie is expected to aid in margin expansion over the medium term, in addition to providing geographic diversification to the revenue base.

Credit challenges

Modest scale of operations in the highly competitive and fragmented auto component industry - HPPL is a relatively smaller-sized player in the highly competitive and fragmented sheet metal fabrication business. With a turnover of Rs. 128.3 crore in FY2023, the company continues to exhibit a modest scale of operations. Operating in the sheet metal industry, HPPL's business profile is exposed to a high degree of competition, which may have a bearing on the margin profile.

Exposure of revenues towards the impending electrification in the automotive industry – Given the moderate dependence of its revenues towards the products applied in IC engines, HPPL's business profile remains exposed towards the impending electrification in the automotive industry. However, with several automotive components supplied by HPPL being technology agnostic in nature (i.e., the components are required in both IC engine vehicles as well as electric vehicles), and with the company enhancing its focus on non-automotive segments, the risk is mitigated to an extent.

Capital structure remains leveraged owing to regular debt-funded capex – The debt profile of HPPL remains dominated by external term loans (51% of overall debt), followed by working capital borrowings (28%) and unsecured interest-free loans (from promoters) (21%) as on March 31, 2023. Gearing remained high at 4.1 times in FY2023 over 4.4 times in FY2022 given the elevated debt levels. Nevertheless, unsecured interest-free loans continue to provide some comfort to the debt profile of HPPL. With the company planning to partly fund its ongoing and upcoming capex activities through external borrowings, the debt level is expected to remain elevated over the near term, with commensurate returns from the debt-funded capex activities being a key rating monitorable.

Vulnerability of margins to forex and raw material price fluctuations, as well as to cyclicality of automotive industry – The company's profitability is exposed to fluctuations in raw material prices, which constitute ~50-60% of its overall cost structure; however, the price pass-on arrangement (with a time lag of one quarter) with its main customers provides some comfort against the said risk. Further, there is vulnerability to fluctuations in forex rates due to its exports; however, foreign currency term loans offer some mitigation in the absence of any active hedging mechanism or natural hedge. While the inherent cyclicality in the underlying automotive industry may impact the business performance of HPPL, the company has been actively trying to ramp up the revenue contribution from the non-automotive segments to mitigate the same.

Liquidity position: Stretched

With cash and liquid investments of Rs. 0.5 crore and buffer in the form of undrawn working capital lines limited to Rs. 3.3 crore as on March 31, 2023, over debt repayment obligations of Rs. 4.4 crore for FY2024, HPPL continues to exhibit a stretched liquidity position. Cash flow generation is expected to remain moderate at ~Rs. 6-8 crore per annum, which should aid in debt servicing as well as partly fund the capital expenditure activities.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company's scale and profitability improve on a sustained basis, strengthening the debt coverage indicators and liquidity profile. Improvement in the net worth position will also be a credit positive. Maintaining TD/OPBITDA lower than 4.0 times on a sustained basis would also be a positive rating trigger.

Negative factors – Pressure on the ratings could arise if HPPL's scale and profitability margins show sustained deterioration and/or if the company undertakes higher-than-anticipated debt-funded capex, which does not generate commensurate returns and impacts the capital structure.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Auto Components](#)
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of Hindustan Pressings Private Limited.

About the company

HPPL was set up in 1985 as Mittal Fabricators Pvt. Ltd. and was renamed as Hindustan Pressings Private Limited in 1998. The company's manufacturing plant at Markal, Pune (Maharashtra), is involved primarily in sheet metal fabrication and manufacturing of pressed metal components, mainly for the automotive industry. HPPL chiefly supplies its products to tier-I auto-component manufacturers as well as to OEMs in the domestic automobile industry to a small extent. It also has a moderate presence in the export market, wherein it mainly caters to the automotive, shipping and construction industries. At present, HPPL's operations are managed by Mr. Rakesh Mittal.

Key financial indicators

HPPL	FY2022 Audited	FY2023 Audited
Operating Income (Rs. crore)	112.4	128.3
PAT (Rs. crore)	2.0	2.4
OPBDIT/OI (%)	11.4%	10.2%
PAT/OI (%)	1.8%	1.9%
Total Outside Liabilities/Tangible Net Worth (times)	5.9	5.2
Total Debt/OPBDIT (times)	5.4	5.6
Interest Coverage (times)	2.7	3.1

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Source: HPPL, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current Rating (FY2024)				Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					21-Dec-23	6-Oct-22	26-Apr-22	-	7-Jan-21
1	Fund-based / Term loan	Long-term	33.1	33.1	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable); ISSUER NOT COOPERATING	-	[ICRA]BB-(Stable)
2	Fund based/non fund based - Working capital facilities	Long-term/ Short-term	22.0	NA	[ICRA]BB-(Stable) / [ICRA]A4	-	-	-	-
3	Fund Based / Working Capital Facilities	Long-term	-	-	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable); ISSUER NOT COOPERATING	-	[ICRA]BB-(Stable)
4	Non-Fund Based Facilities – Letter of Credit / Bank Guarantee	Short-term	-	-	-	[ICRA]A4	[ICRA]A4; ISSUER NOT COOPERATING	-	[ICRA]A4

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund based / Term loan	Simple
Long-term/Short-term – Fund based/non fund based - Working capital facilities	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-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term loan – 1	FY2022	8.0%	FY2028	23.75	[ICRA]BB- (Stable)
NA	Term loan – 2	FY2022	7.5%	FY2027	1.95	[ICRA]BB- (Stable)
NA	Term loan – 3	FY2021	7.5%	FY2026	7.40	[ICRA]BB- (Stable)
NA	Working Capital Facilities	NA	NA	NA	22.00	[ICRA]BB- (Stable)/ [ICRA]A4

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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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.

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