



## HPL Socomec Private Limited

### RATING HISTORY

	Rating Outstanding	Previous Ratings
	March 2010	March 2009
Rs. 431.70 million long term loans	LBBB	LBBB
Rs 1.43 billion sanctioned fund based limits	LBBB	LBBB
Rs 1.64 billion sanctioned non fund based limits	A3+	A3+

ICRA has reaffirmed the LBBB (pronounced as L triple B) rating assigned to the Rs. 431.70 million outstanding term loans and Rs 1.43 billion fund based limits of HPL Socomec Private Limited (HSPL). ICRA has also reaffirmed the A3+ (pronounced as A three plus) rating assigned to the Rs 1.64 billion non-fund based limits of HSPL.†

The rating action reflects the growth in top line of the company in FY 2009 buoyed by growth in sales of all its products namely electronic energy meters (EEMs), compact fluorescent Lamps (CFLs) and miniature circuit breakers (MCBs). The rating takes into consideration the positive demand outlook for all the product segments it operates in and its established position in the meters market arising out of long experience, technical competence and goodwill enjoyed amongst the state power utilities who are the primary clients. These factors have resulted in healthy order book and turnover, which is likely to be sustained in the medium term. The ratings are however constrained by strong competitive pressures in all the segments which results in pressures on profitability margins. The rating also reflects HSPL's high working capital intensity arising mainly from extended debtor days which coupled with rapid growth has resulted in consistent negative cash generation (net cash accruals less working capital changes) from operations.

† For complete rating definition please refer to ICRA Website [www.icra.in](http://www.icra.in) or any of the ICRA Rating Publications

Further as a significant part of the working capital has been funded by debt this has resulted in relatively high gearing and moderate coverage indicators.

Energy meters segment represents more than 60% of the sales, switchgears and MCBs together form ~ 20% of the top line and CFLs constitute more than 17% of sales currently. Cables division which has commenced operations very recently contributes 1%. HSPL has a capacity to manufacture 4 million energy meters annually. These are supplied to electricity boards in all major states in the country. However as these state utilities are in poor financial position they normally take up to 4-5 months to make payments to HSPL resulting in stretched liquidity position for the latter. Recently HSPL has set up its own moulding facility to manufacture moulds for the plastic casing for meters. The meter sales volumes as well as price realizations have increased in FY 2009 owing to increase in demand and introduction of advanced features such as anti-tamper, error proof and higher data storage capacity.

HSPL's CFL manufacturing capacity has almost trebled in the last two years. It supplies CFLs to a wide dealer network and major infrastructure firms and is currently setting up another unit in Haryana which is likely to commence operations in FY 2011. The sales volumes and average realization of CFLs have both increased substantially in FY 2009 as demand

has been higher and the company has been manufacturing more of higher wattage bulbs that fetch better prices in the market. MCBs and switchgears have also witnessed a sharp increase in total units sold as well as average realization in FY 2009.

HSPL's operating income has increased by 42% y-o-y from Rs 2.62 billion in FY 2008 to Rs 3.71 billion in FY 2009. The operating margin however declined from 16.35% in FY 2008 to 15.60% in FY 2009 as a result of increase in operating expenses; net profit margin also declined from 9.2% to 7.3% during this period owing to increase in interest cost on fresh capital expenditure incurred during the year. There was also pressure on return on capital employed as well as return on networth as these decreased from 30% to 24% and 43% to 29% respectively during this period. As the company availed fresh debt during FY 2009, the gearing level did not change much during FY 2009 however decreased marginally from 1.51 times as on 31st March 2008 to 1.47 times as on 31st March 2009 owing to cash accruals during the year.

Performance in the 9 months of FY 2010 till December 2009 has been satisfactory as profitability margins have increased from FY 2009 levels. The share application money of Rs 100 million that was infused by the HPL group in FY 2008 was into equity share capital in July 2009 and the group also infused another Rs



280 million as equity in FY 2010. Socomec, the other equity partner also infused Rs 31.5 million in the current year to retain its share in the company at 8.29%. ICRA expects the growth in top line to sustain but margins to largely remain flat. The working capital intensity is expected to remain high.

### Company Profile

HPL Socomec Pvt. Ltd. (HSPL) is a 92:8 JV between the HPL group and Socomec S.A. of France. It was incorporated in 1991 and commenced operations in June 1993. It is engaged in the manufacture of Electronic energy meters (EEM), Compact fluorescent lamps (CFLs), Miniature circuit breakers (MCB) and switch gears. The HPL group was founded in 1979 by Mr. Lalit Seth, a

first-generation entrepreneur, who has a background in electrical engineering. A group company namely HPL Protection Technologies Ltd which manufactures CFLs and MCBs was merged with HPL Socomec in April 2008.

February 2010

### Key Financial Indicators:

		2008-09	2007-08	2006-07
Net Sales		3,713.28	2,620.94	1,385.84
Operating Income (OI)		3,717.57	2,621.57	1,387.39
OPBDIT		580.12	428.69	160.15
Profit after Tax (PAT)		271.47	240.57	65.19
Equity Capital		79.80	98.89	72.51
Tangible Net Worth		1181.46	711.01	404.56
Total debt		1730.90	1050.64	609.80
OPBDIT/OI		15.60%	16.35%	11.54%
PAT/OI	(%)	7.30%	9.18%	4.70%
PBIT/(Total Debt + Tangible Net Worth + Deferred Tax Liability)	(%)	23.67%	30.06%	17.27%
OPBDIT/Interest & Finance Charges	Times	3.48	4.07	3.17
Net Cash Accruals/Total Debt	(%)	16%	17%	13%
Total Debt /Tangible Net Worth	Times	1.47	1.48	1.51
Total Debt/(Tangible Net Worth + Deferred Tax Liability)	Times	1.42	1.44	1.45
Current Ratio	Times	1.26	1.26	1.16

Note: All figures in Rs million, OPBDIT: Operating Profit before Depreciation, Interest and taxes  
PBIT: Profit before Interest and Taxes.

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