

September 13, 2017

Hutch India Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limit	11.75	[ICRA]B+(Stable) reaffirmed
Long-term Loans	2.93 (reduced from 3.80)	[ICRA]B+(Stable) reaffirmed
Long-term Unallocated Limits	0.87 (earlier nil)	[ICRA]B+(Stable) reaffirmed
Total	15.55	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]B+ (pronounced ICRA B plus) for the Rs. 14.55 crore (earlier Rs. 15.55 crore) fund-based limits of Hutch India Pvt. Ltd. ('HIPL' or 'the company'). The unallocated limits of Rs. 0.87 crore has been rated at [ICRA]B+. The outlook on the long-term rating is Stable.

Rationale

The rating continues to remain constrained by HIPL's highly geared capital structure due to its high reliance on external funding and weak net-worth; although ~25% of its total debt comprises interest-free unsecured loans. ICRA notes that the profitability of the company is susceptible to volatility in prices of steel and zinc and the company's limited bargaining power against established raw material suppliers. Besides, the fragmented nature of the industry and the intense price-based competition exerts pressure on the company's margins.

The rating, however, favourably takes into account the extensive experience of the promoters in the steel pipe manufacturing business, locational advantage in terms of proximity to raw material availability and customers, along with healthy growth in revenues in the past two years following favourable demand for its products.

Going forward, the operating income of the company is expected to register a healthy growth of 20-25% in FY2018 on the back of increasing orders for structural pipes used in agricultural greenhouses. The State and the Central Governments have been encouraging the setting up of greenhouses under the National Horticulture Mission (NHM) by extending capital subsidy. The cash flows of the company will remain stretched on account of HIPL's increasing working capital requirement with growing operating income. The company's ability to efficiently manage its working capital cycle and balance the debt-equity proportion to meet the funding gap will be the key rating sensitivity.

Key rating drivers

Credit strengths

- **Significant experience of management in the steel pipe manufacturing sector** - The company was set up in 2003 by Mr. Kamlesh Agarwal and family, with commercial operations commencing from June 2014. The promoter has an extensive experience of more than three decades in the steel industry, which has enabled the company to establish its position in the domestic market. Prior to the incorporation of HIPL, the promoter was associated with Rawalwasia Steel Plant Private Limited.
- **Locational advantage from the manufacturing unit's proximity to customers and suppliers** - Hot rolled (HR) coils/strips are the main raw materials used by HIPL. Around 65% of its HR coil requirement is met through distributors appointed by Essar Steel from the plant located at Surat

(Gujarat). HIPL caters to the domestic market and ~80% of its revenues are derived from customers in Maharashtra and Gujarat. As western India accounts for a majority of its revenue, the company enjoys locational advantage in terms of proximity to customers.

- **Favourable demand prospects for its products has supported revenue growth during the past three fiscals** - HIPL commenced its commercial production from June 2014 and the company booked gross sales of Rs. 23.77 crore in its first year of operations. Thereafter, HIPL registered a robust revenue growth of ~146% in FY2016 and ~13% in FY2017, supported by the healthy demand for its manufactured products.

Credit weaknesses

- **Highly geared capital structure due to high reliance on external borrowings; however, a significant portion comprises interest-free unsecured loans** - The capital structure of the company has remained highly geared with a gearing of 5.71 times as on March 31, 2017. The total debt increased from Rs. 19.77 crore as on March 31, 2016 to Rs. 21.01 crore as on March 31, 2017 on account of increase in working capital borrowings and housing finance loan availed to construct sheds for expanding the manufacturing unit. However, the unsecured loans of Rs. 5.49 crore are interest free. Being in its initial years of operations, the net-worth base of the company has remained low at Rs. 3.68 crore as on March 31, 2017.
- **Sensitivity of margins to volatile prices of major raw materials like steel and zinc; limited bargaining power against established suppliers** - Raw material cost accounts for more than 95% of the total manufacturing cost of the company. As HIPL maintains high inventory levels, its profitability is susceptible to price risks. Although the raw material inventory is low, the company maintains high finished stock inventory of a variety of pipes (black, galvanised and hollow sections) in different sizes and a decline in zinc and HR coil prices can adversely hit the company's margins. HIPL procures most of its raw material from established players, which limits its bargaining power, and in most cases payments are made in advance.
- **Fragmented nature of the industry and intense price-based competition, putting pressure on margins** - The competitive nature of the fragmented steel pipe industry limits pricing flexibility, keeping margins under pressure. However, the company holds the upper edge over other competitors because of its location. As galvanised pipe major manufacturers are largely located in the northern part of the country, HIPL is able to save on its freight costs while catering to customers in western India.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Corporate Credit Rating – A Note on Methodology](#)

[Rating Methodology for Entities in the Ferrous Metals Industry](#)

About the company

Incorporated in 2003, Hutch India Pvt. Ltd (HIPL) manufactures Electric Resistance Welded (ERW) black and hot dipped galvanised steel pipes. Its registered office is in Hisar, Haryana, and its manufacturing facility, with an installed manufacturing capacity of 16,000 metric tonne per annum (MTPA), is in Surat, Gujarat. The company commenced manufacturing from June 2014. HIPL is an ISO 9001:2008-accredited company, also certified by the Bureau of Indian Standards. Its products are sold under its 'Hindustar', 'Hutch' and 'Jaldhari' brands. Mr. Kamlesh Agarwal, who looks after overall operations, has a vast experience of over three decades in steel pipe manufacturing.

In FY2017, HIPL reported a net profit of Rs. 0.07 crore on an operating income of Rs. 59.12 crore, as compared to a net profit of Rs. 0.10 crore on an operating income of Rs. 52.17 crore during the previous year.

Key Financial Indicators (Audited)

Particulars	FY2016	FY2017
Operating income (Crores)	52.17	59.12
PAT (Crores)	0.10	0.07
OPBDIT/ OI (%)	4.99%	4.06%
RoCE (%)	0.19%	0.11%
Total Debt/ TNW (times)	5.47	5.71
Total Debt/ OPBDIT (times)	7.60	8.76
Interest coverage (times)	1.51	1.79
NWC/ OI (%)	22%	21%

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax;

NWC: Net Working Capital; RoCE: Return on Capital employed; TNW: Tangible Net Worth

Source: Financial statements of HIPL and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S.No	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Rated amount	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
			(Rs. crore)				
				Sep-17	Aug-16	Jun-15	-
1	Term Loan	Long-term Fund based	2.93	[ICRA]B+ (Stable)	[ICRA]B+	[ICRA]B+	-
2	Cash Credit	Long-term Fund based	11.75	[ICRA]B+ (Stable)	[ICRA]B+	[ICRA]B+	-
5	Unallocated amount	Long-term Fund based	0.87	[ICRA]B+ (Stable)	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Name of the instrument	Date of issuance	Coupon rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Term Loan 1	Oct'13	11.45%	Mar'21	2.93	[ICRA]B+ (Stable)
Cash Credit	-	-	-	11.75	[ICRA]B+ (Stable)
Unallocated amount	-	-	-	0.87	[ICRA]B+ (Stable)

Source: HIPL

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