

Hind Hydraulics & Engineers (Prop Hind Fluid Power Private Limited)

April 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	14.50 (Reduced from 16.54)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	3.00	CARE B+; Stable / CARE A4 (Single B Plus; Outlook: Stable/ A Four)	Reaffirmed
Total Bank Facilities	17.50 (Rs. Seventeen Crore and Fifty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Hind Hydraulics & Engineers (Prop: Hind Fluid Power Private Limited (HFPPPL) continues to remain constrained by small scale of operations, low profitability, leverage capital structure and weak coverage indicators, working capital intensive nature of business and stretched liquidity during FY21 (refers to April 01 to March 31). The ratings, further, remained constrained on account of highly competitive and fragmented industry. The rating, however, derive comfort from experienced management and long track of operations and reputed customer base.

Rating Sensitivities

Positive factors:

- Improvement in scale of operation marked by total operating income above Rs.50 crores on sustainable basis with sustaining profitability in line with current profitability margin.
- Improvement in capital structure below unity and debt coverage indicators marked by interest coverage of more than 3 times and TDGCA below 10 times
- Improvement in operating cycle below 100 days

Negative Factors

- Deterioration in the capital structure marked with overall gearing above 4x on sustainable basis.
- Any cash flow mismatch from operation putting pressure on liquidity

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations with low profitability

The scale of operation marked by total operating income (TOI) of the company has declined and stood small at Rs. 19.40 crore in FY21 from Rs. 23.11 crore in FY20 on account of lower intake of the orders from the existing customers during the year. However, The company has achieved TOI of Rs.20.25 crore during 11MFY21 (Provisional).

Profit margins of the company has improved but remained moderate marked by improved PBILDT Margin of 14.11% during FY21 as against 12.56% during FY20, the improvement was due to declined material costs on proportionate basis. However, in absolute terms PBILDT decrease to Rs.2.74 crore in FY21 from Rs.2.90 crore in FY20 due to decrease in scale of operation. However, with lower depreciation charges, the company has turned to profits and reported PAT of Rs. 0.32 crore (PAT Margin: 1.62%) during FY21 as against losses during FY20. Gross cash accruals also remained low at Rs.1.07 crore as on March 31, 2021 against Rs.1.10 crore as on March 31, 2020.

Leveraged capital structure and weak coverage indicators

The capital structure of the company stood leveraged as marked by deteriorated overall gearing ratio of 2.69x as on March 31, 2021 as compare to 2.40x as on March 31, 2020 which was mainly on account of higher utilization of working capital bank borrowings as well as additional loans taken for raw material purchase as on balance sheet date.

The debt coverage indicators remained weak marked by Interest coverage ratio of 1.58x during FY21 as against 1.68x during FY20, the marginal deterioration was on account of decline in PBILDT level in absolute terms. Further, TDGCA ratio remained weak at 19.23 years during FY21 as against 14.78 years during FY20 on account of higher debt levels as on balance sheet date.

Working capital intensive nature of business

The working capital cycle remained elongated at 365 days during FY21 which was due to higher inventory and collection period. The Company is required to maintain inventory in the form of raw material for smooth execution of production process. Furthermore, significant portion of inventory is blocked in work in progress because of customization and approvals from the customers. All these resulted into a high average inventory period of 308 days in FY21. The collection period of the company stood elongated at 113 days in FY21. The company receives an average credit period of around 2-3 months which resulted into

¹ Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications \

average creditors' period of 56 days for FY20. The working capital limits utilization remained around 50% for the past 12 months period ended February 2022.

Highly competitive and fragmented industry

HFPPL operates in a highly-fragmented industry marked by the presence of a large number of players in the unorganized sector. The industry is characterized by low entry barriers due to low technological inputs and easy availability of standardized machinery for the production. This further leads to high competition among the various players and low bargaining power with suppliers. Since the company's client base consists of established players, HFPPL's pricing power is restricted with limited ability to pass on any increase in input cost due to intense competition.

Key Rating Strengths

Experienced management and long track of operations

The company was incorporated in 1989 and has been operational for almost three decades. It is currently managed by Mr. Sucha Singh and Mrs. Sukhdev Singh. They are both graduates by qualification and have an experience of almost five decades through their association with HFPPL and other family businesses. They look after the overall business operations of the company and are supported by a second-tier management team which is comprised of members having requisite experience in their respective fields.

Reputed customer base

The company has been catering to various reputed clients like Honda Motor cycle & Scooters Pvt Ltd, Hero MotoCorp Ltd and Maruti Suzuki India Pvt Ltd. In light of the satisfactory work, it has managed to get repeat orders from these clients. The reputed client base enhances the company's image and thus assures healthy growth prospects.

Liquidity analysis: Stretched

Liquidity remained stretched marked by tightly matched accruals to repayment obligations. The current ratio and quick ratio stood 1.86x and 0.59x respectively as on March 31, 2021. Cash flow from operating activities have turned negative and remained at Rs. 0.63 crore during FY21 as against positive CFO of Rs. 1.19 crore during FY20. The deterioration was on account of blockage of funds into inventories. The working capital limits utilization remained around 50% for the past 12 months period ended February 2022. As on March 31, 2022, cash and bank balance remained at Rs. 1.07 crore.

Analytical approach: Standalone

Applicable criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Faridabad based Hind Fluid Power Private Limited (HFPPL) was incorporated as a private limited company on September 18, 1989 by Mr. Sucha Singh and Mr. Sukhdev Singh. HFPPL was initially established as a proprietorship concern by Mr. Sucha Singh as "Hind Hydraulics and Engineers" in 1973. The company is ISO 9001:2008, 14001:2004, 18001: 2007 certified and is engaged in the manufacturing of hydraulic presses, cylinders and spare parts which find application in various industries such as the automobile industry, manufacturing of air conditioners, washing machines, etc. The company primarily procures its raw material such as stainless-steel plate etc. from the domestic market. The company sells its products to the manufactures like Honda Motorcycle & scooters Private Limited, Hero MotoCorp limited, Maruti Suzuki India Pvt. Ltd and Government organization like defense sector and Indian Railways.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	11MFY22 (Prov.)
Total operating income	23.11	19.40	20.25
PBILDT	2.90	2.74	NA
PAT	-0.08	0.32	NA
Overall gearing (times)	2.40	2.69	NA
Interest coverage (times)	1.68	1.58	NA

A: Audited, Prov.: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: CRISIL has put the rating assigned to the bank facilities of HFPPPL rating into Issuer Not Cooperating category vide press release dated February 25, 2022 on account of its inability to carry out a review in the absence of the requisite information from the company.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument/facility: Please refer Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure-4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	6.50	CARE B+; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	3.00	CARE B+; Stable / CARE A4
Fund-based - LT-Term Loan		-	-	December 2030	8.00	CARE B+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	6.50	CARE B+; Stable	-	1)CARE B+; Stable (18-Mar-21)	1)CARE B+; Stable (02-Mar-20)	1)CARE B+; Stable (29-Mar-19) 2)CARE B+; Stable (19-Apr-18)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	3.00	CARE B+; Stable / CARE A4	-	1)CARE B+; Stable / CARE A4 (18-Mar-21)	1)CARE B+; Stable / CARE A4 (02-Mar-20)	1)CARE B+; Stable / CARE A4 (29-Mar-19) 2)CARE B+; Stable / CARE A4 (19-Apr-18)
3	Fund-based - LT-Term Loan	LT	8.00	CARE B+; Stable	-	1)CARE B+; Stable (18-Mar-21)	1)CARE B+; Stable (02-Mar-20)	1)CARE B+; Stable (29-Mar-19) 2)CARE B+; Stable / CARE A4 (19-Apr-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities : Not applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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