

HP Adhesives Limited

November 12, 2021

Ratings

Facility	Amount (Rs. crore)	Rating ^[1]	Rating Action
Long-term Bank Facilities	42.43	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Short-term Bank Facilities	2.00	CARE A3 (A Three)	Assigned
Total facilities	44.43 (Rs. Forty Four crore and forty three lacs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to bank facilities of HP Adhesives Limited (HPAL) derives strength from improvement in scale of operations of the company during FY21. (April-March), over three decades of experience of the promoters in the adhesive industry, wide product portfolio with multiple SKUs, Pan India distribution network & improved debt metrics.

The ratings strengths are however tempered by relatively modest scale of operations, susceptibility to volatility in raw material prices, working capital intensive nature of operations, project related risks and presence in a highly fragmented industry leading to stiff competition.

Rating Sensitivities

Positive Factors

- Increase in scale of operations with total operating income exceeding Rs.250 crore with tangible networth base exceeding Rs.75 crore post IPO.
- Improvement in the PBILDT and PAT margin exceeding 17% and 10% respectively on a sustained basis.
- Improvement in collection period, reaching below 50 days on a sustained basis.

Negative Factors

- Decline in total operating income below Rs. 100 crore on a sustained basis
- Deterioration in the profitability indicators with PBILDT & PAT margins reaching below 10% and 5% respectively
- Deterioration in the collection period exceeding 90 days with utilization of the working limit exceeding 90% on a sustained basis

Detailed description of Key rating drivers

Key rating Strengths

Over three decades of experience of the promoters in the industry

With experience of more than three decades in the industry, the promoter has been able to create niche for sealant & adhesive segment. HPAL's presence is stronger in the western region as it derived almost half of its entire domestic revenue from this region in FY21.

Improving scale of operations & profitability in FY21

In FY21, HPAL's Total Operating Income (TOI) increased by 41.01% on account of improvement in sales realization & improved sales volume. HPAL derives more than 80% of its revenue from the domestic market. Also, HPAL recorded PAT of Rs.10.06 crore during FY21. During FY20, HPAL's Total Operating Income (TOI) amounted to Rs.86.83 crore, its PBT before extraordinary expenses were Rs.2.02 crore, however the company had made payment to excise and sales tax authorities under Sab ka vishwas legacy dispute resolution scheme and Maha VAT amnesty scheme of Rs. 6.88 crore and 0.56 crore, respectively which has led to company posting losses.

Wide Product Portfolio and multiple SKUs

Over last few years, the company have expanded the product portfolio to multiple product categories including silicone sealants, synthetic rubber adhesives, PVA adhesives and other sealants. During FY21, PVC, cPVC and uPVC solvent cement generated revenues of Rs. 84 crore which represents about 70.44% of total sales. Silicone sealants, introduced in the year 2019, contributed approximately 7.99% in total revenue. PVA adhesives and synthetic rubber adhesives, introduced in the year 2018, together contributed about 5.33% in total revenue.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Wide pan India distribution network with diversified sales

The company have more than 750 distributors and no distributor constitutes more than 4% of total sales. Top 10 distributors contributed not more than 20% of total sales during FY21. Company is looking at expanding its distributor network on the back of expansion in operations, especially for the brands Strong-weld & HP.

Improved gearing and coverage indicators

HPAL's overall gearing has improved to 3.41x as on March 31, 2021 from 15.29x on March 31, 2020 due increased tangible net worth led by accretion of profits. PBILDT interest coverage ratio and Total debt/ Gross Cash accruals improved to 6.39 times (P.Y.: 3.07 X) and 3.37 times (P.Y.: -10.14 X) respectively in FY21. The company has also raised Rs.21.55 crore through rights issue during H1FY22. The company has also filed for IPO and has received SEBI approval. HPAL's overall gearing and overall financial risk profile is envisaged to improve over medium term.

Key rating Weaknesses**Moderate scale of operations**

HP Adhesives Limited (HPAL) was originally formed as a partnership firm under the name and style of "M/s. H.P. International" M/s. HP International was thereafter converted into a private limited company "HP Adhesives Private Limited" on May 07, 2019. Subsequently, the Company has been converted into a public limited company and the name of the Company changed to "HP Adhesives Limited" on June 23, 2021. Despite its promoters being in this business for over 30 years, scale of operations in much smaller than many established brands in terms of size of operations & net worth.

Susceptibility to volatility in raw material prices

The principle raw material for the company are solvents, resins and other additives that are manufactured using derivatives of crude oil. Prices of these principal raw materials are subject to changes in the prices of crude oil and other petrochemical intermediates which are linked to international prices and are susceptible to significant volatility from time to time. As a result, the company remain susceptible to the risks arising out of raw material price fluctuations and in particular fluctuation of crude oil prices which could result in declining operating margins. While the variation in the price of such raw materials is typically passed on to the customer, inability to do so could adversely affect the profitability margins.

Working capital intensive nature of operations

The company's operations are working capital intensive with operating cycle in the range of 3-4 months. However the operating cycle improved to 83 days in FY21 from 116 days in FY20. The collection period is still stretched & going ahead, company expects to improve it further. The average fund-based utilization stood at around 79.81% for the twelve months ending August 2021 and provides some backup.

Project Related Risk

The company is currently undertaking an expansion project. The total size of the project is around Rs. 25.50 crore and is expected to be funded by rights issue and internal accrual and undrawn term loan of of Rs. 5 crore. The project is expected to be completed by FY24. The company has raised Rs.21.55 crore through a rights issue, which will be primarily helpful in funding the capex during current year (FY22) & FY23. The ability of the company to implement the capex without any time or cost over run and ability to generate the sales from the expanded capacity remains as the key rating monitorable.

Industry Outlook:

The Rs 13500-14000 crore (fiscal 2020) domestic adhesives and sealants market is broadly categorised into 1) industrial and 2) consumer and bazaar adhesives. The industrial segment caters to B2B industries such as packaging, footwear, paints, automotive, etc. The retail segment caters to industries such as furniture/wood work, building construction, arts and craft, electrical fittings, etc.

The adhesives and sealants market clocked 8-9% CAGR between fiscals 2015 and 2020, driven by growth in major end-user industries such as packaging, construction, electronics and woodworking. Construction investments logged 4-5% CAGR during the period, driven by an increase in spending on roads, railways and urban infrastructure. Moreover, the industry reflected healthy growth (7-8% CAGR) in the packaging segment. However, the adhesives market stagnated in fiscal 2021 because of the pandemic, de-growing at 1-2% CAGR to Rs 13500 crore. Fortunately, the decline was restricted thanks to growth in food packaging and e-commerce industries, which catered to people forced to stay at home and ordered online. Moreover, redecorating spend increased, leading to higher usage of consumer and bazaar adhesives in the furniture market.

Liquidity: Adequate

The liquidity position is adequate with expected cash accruals of Rs. 14-15 crore in FY22 vis a vis repayment of Rs. 2.32 crore.

The utilization of working capital utilization limits was around 77% on an average for the past 12 months ended August 21 providing some backup. HPAL has a stretched operating cycle owing to higher collection period, but the same has improved in FY21 & going ahead, it is expected to further improve. Its cash and cash equivalents as on March 31, 2021 was Rs.0.73 crore

Analytical Approach: Standalone

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the company

HP Adhesives Limited (HPAL) was originally formed as a partnership firm under the name and style of “M/s. H.P. International” pursuant to a deed of partnership dated January 01, 1987, as amended and restated from time to time. M/s. HP International was thereafter converted into a private limited company “HP Adhesives Private Limited” on May 07, 2019, pursuant to the provisions of Chapter XXI of the Companies Act, 2013. Subsequently, the Company has been converted into a public limited company and the name of the Company changed to “HP Adhesives Limited” on June 23, 2021 and a fresh Certificate of Incorporation dated July 01, 2021 issued by the RoC. It is involved in manufacturing of solvent cements, synthetic rubber adhesives and PVA adhesives, silicone sealants and gasket shellac & also trades in Ball Valves, PTFE and Masking Tape. The company has filed for IPO and has received SEBI approval.

Covenants of rated facility: Not applicable

Brief Financials (Rs. crore)	FY20 (A)*	FY21 (A)
Total operating income	86.83	122.52
PBILDT	7.96	16.33
PAT	-4.73	10.06
Overall gearing (times)	15.29	3.41
Interest coverage (times)	3.07	6.39

A: Audited; *for the period May 2019 to March 2020

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History (Last three years): Please refer Annexure-2

Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Complexity level of various instruments rated for this company: 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-Long Term		-	-	-	33.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC		-	-	-	2.00	CARE A3
Term Loan-Long Term		-	-	January 2028	9.43	CARE BBB-; 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-Long Term	LT	33.00	CARE BBB-; Stable				
2	Non-fund-based - ST-BG/LC	ST	2.00	CARE A3				
3	Term Loan-Long Term	LT	9.43	CARE BBB-; Stable				

* Long Term / Short Term

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-Long Term	Simple
2	Non-fund-based - ST-BG/LC	Simple
3	Term Loan-Long Term	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 has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications

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