

HP Adhesives Limited

November 15, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	6.31 (Reduced from 9.43)	CARE BBB-; Positive (Triple B Minus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	2.00	CARE BBB-; Positive / CARE A3+ (Triple B Minus ; Outlook: Positive/ A Three Plus)	Revised from CARE A3 (A Three)
Long Term / Short Term Bank Facilities	31.00 (Reduced from 33.00)	CARE BBB-; Positive / CARE A3+ (Triple B Minus ; Outlook: Positive/ A Three Plus)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Total Bank Facilities	39.31 (₹ Thirty-Nine Crore and Thirty-One Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in short term rating assigned to the bank facilities of HP Adhesives Ltd takes into consideration improvement in liquidity position of the company post completion of the IPO (Initial Public Offering). The company has successfully concluded IPO during December 2021 and net proceeds from the IPO is to the tune of Rs. 96.69 crore. The proceeds is sufficient to fund the capital expenditure and working capital requirements of the company for the next 2 to 3 years. CARE has also revised the outlook to Positive and believes that the business and financial risk profile of the company will continue to improve driven by new product launches and healthy demand potential.

The ratings continue to factor in the extensive 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 and presence in a highly fragmented industry leading to stiff competition.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations with total operating income exceeding Rs.300 crore on sustained basis.
- Improvement in the PBILDT and PAT margin exceeding 9% and 6% respectively on a sustained basis
- Improvement in collection period, reaching below 50 days on a sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in total operating income below Rs. 150 crore on a sustained basis
- Deterioration in the profitability indicators with PBILDT & PAT margins reaching below 6% and 3% respectively
- Increase in overall gearing more than 1.2x on account of increase in long term/short term debt

Outlook: Positive

Detailed description of the 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. It has 4 depots located strategically across India catering to more than 1100 distributors across India. It has majority of its sales in domestic markets, however the company also exports to distributors and customers in more than 20 countries.

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

Wide Product Portfolio with varied applications and multiple SKUs

Over last few years, the company have expanded the product portfolio to multiple product categories including CPVC, PVC and uPVC solvent cements, silicone sealants, synthetic rubber adhesives, PVA adhesives and other sealants, Pipe lubricant and gasket shellacs and Ancillary products like ball valves, Teflon tapes and masking tapes. These products have multiple applications in plumbing and sanitary, drainage and water supply, glass and glazing, automotive, furniture and wood working, PVC flooring etc.

Consistent improvement in revenue; growth to continue:

Revenue of HPAL has improved consistently for the last five years ended FY22. In FY22, HPAL's Total Operating Income (TOI) increased by ~35% on account of improvement in sales realization & improved sales volume. Also, expanding its customer base in domestic as well as export market in past few years, has resulted in increase of revenue. HPAL's Total Operating Income (TOI) amounted to Rs.165.43 crore in FY22. It derives more than 90% of its revenue from the domestic market.

Wide pan India distribution network with diversified sales and Established presence in international markets

Company has 4 strategically located Depots across India to service more than 1100 distributors across India as well as several domestic pipe companies. Expanding distribution reach is a constant focus area for the Company and it strives to add 150+ distributors every year by increasing penetration across India.

Company also caters to distributors and customers in more than 20 countries. Exports business constitutes 8.81% of sales in FY22.

Improved capital structure and comfortable coverage indicators

HPAL's overall gearing has improved to 0.14x as on March 31, 2022 from 3.41x on March 31, 2021 due to increase in net worth (driven by IPO) and partial prepayment of term loan from the IPO proceeds. Total debt/GCA of the company improved from 3.37x as on March 31, 2021 to 2.00x as on March 31, 2022. Further, PBILDT interest coverage ratio of the company stands comfortable at 3.87x in FY22. HPAL's overall gearing and overall financial risk profile is envisaged to improve over medium term.

Key rating weaknesses**Moderate scale of operations and decline in profitability in FY22**

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 is modest than many established brands.

PBILDT margin declined to 7.33% in FY22 (FY21: 13.17%) as the company was not able to pass on the prices to its customers. HPAL incurred high raw material cost due to uptrend in crude oil prices and disruption in supply chain on account of geo-political situation. Due to B2C nature of business and competitive nature of the industry the company is only able to pass on any increase in raw material prices with a lag.

Susceptibility to volatility in raw material prices and forex risk

The raw material used in the manufacturing of HPAL's products are derivative of crude. The price of crude is affected by factors like global demand, global production, geo-political factors and government regulations hence tend to remain highly volatile. Further, the raw material imported is dependent upon various global market conditions and supply chain disruptions. This further exposes HPAL to currency risk on account of its import payables for the raw materials purchased and export receivables in foreign currency.

Working capital intensive nature of operations and moderate utilization level

The company's operations are working capital intensive and it remained stretched at 82 days in FY22 (PY: 83 days). The average fund-based utilization stood at around 48.87% for the trailing twelve months ending September 2022 with unutilized limits providing liquidity buffer.

Industry outlook:

The India adhesives and sealants market was valued at more than USD 1,100 million in 2021, and it is expected to register an estimated CAGR of over 8% over the forecast period (2022-2027).

The country was negatively affected by the COVID-19 pandemic. The adhesives and sealants market in the country also faced a similar situation. But the market has now reached pre-pandemic levels, and it is expected to grow steadily. The major factors

driving the market are the increasing spending on building construction and home improvement and increased demand for PVC and CPVC pipes to drive demand for solvent cement adhesives.

Liquidity: Adequate

HPAL's liquidity position is adequate with term loan repayment obligation of Rs.3.88 crore in FY23 and Rs.3.09 crore in FY24 as against the achieved Gross Cash Accruals (GCA) of Rs.9.28 crore in FY22. The cash accruals are expected to remain above Rs. 10 crore during FY23 and FY24, which will be sufficient to meet upcoming repayment obligations. With a gearing of 0.14 times as of March 31, 2022, the issuer has sufficient gearing headroom, to raise additional debt for its capex. The company has cash and bank balance of around Rs.58.94 crore as on March 31, 2022. The average fund based working capital utilization is around 49% for past twelve months ending on September 2022, providing liquidity comfort.

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.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	122.30	165.43	121.92
PBILDT	16.11	12.13	8.23
PAT	10.06	6.01	3.88
Overall gearing (times)	3.41	0.14	NA
Interest coverage (times)	6.31	3.87	NA

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	2.00	CARE BBB-; Positive / CARE A3+
Fund-based/Non-fund-based-LT/ST		-	-	-	31.00	CARE BBB-; Positive / CARE A3+
Term Loan-Long Term		-	-	31/03/2025	6.31	CARE BBB-; Positive

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	31.00	CARE BBB-; Positive / CARE A3+	-	1)CARE BBB-; Stable (12-Nov-21)	-	-
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	2.00	CARE BBB-; Positive / CARE A3+	-	1)CARE A3 (12-Nov-21)	-	-
3	Term Loan-Long Term	LT	6.31	CARE BBB-; Positive	-	1)CARE BBB-; Stable (12-Nov-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple
2	Term Loan-Long Term	Simple

Annexure-5: Bank lender details for this companyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings 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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About us:

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