Hindusthan Urban Infrastructure Limited

April 26, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	73.71	CARE BB; Stable	Assigned
Long Term / Short Term Bank Facilities	59.29	CARE BB; Stable / CARE A4	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Hindusthan Urban Infrastructure Limited (HUIL) takes into account its financial performance marked by low profitability with losses at PAT level, weak return indicators and weak debt coverage indicators in last three years ended FY22 (refers to the period April 1 to March 31) which further deteriorated during 9MFY23 and its stretched liquidity. The ratings are further constrained by vulnerability of its profitability to volatile input prices and foreign exchange fluctuation and its presence in an intensely competitive and fragmented insulator and speciality chemicals industry. The ratings also factors in temporary discontinuance of operations of volatile and loss making conductor business segment.

The ratings however derive strength from its experienced promoters, long track record of the company with established relationship with its reputed clientele base and growing scale of operations primarily driven by chemical business segment. The ratings also factors in need based support from promoter group entities and its moderate capital structure.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in consolidated total operating income (TOI) beyond Rs.800 crore on sustained basis.
- Improvement in profitability with PBILDT margin of 12% & above along with improvement in ROCE to above 9% on a sustained basis
- Improvement in total debt/GCA to less than 10x, on sustained basis
- Improvement in operating cycle resulting into reduced reliance on external borrowings

Negative factors

- Decline in consolidated TOI below Rs.550 crore along with that PBILDT margin falling below 7% on sustained basis.
- Deterioration in overall gearing beyond 1.5x on sustained basis
- Elongation in operating cycle to beyond 150 days and simultaneous increase in external borrowings to fund these requirements
- Discontinuance of funding support from promoters

Analytical approach: Consolidated

For arriving at the ratings of HUIL, CARE has taken a consolidated approach of HUIL and its subsidiary namely Hindusthan Speciality Chemicals Ltd (HSCL). HUIL holds 58.50% equity stake in HSCL as on March 31, 2022 and also has extended an unconditional and irrevocable corporate guarantee for the bank facilities of HSCL. Also, both the companies belong to the same group i.e Hindusthan Group and share common management.

Outlook: Stable

Stable outlook reflects CARE's view that Hindusthan Urban Infrastructure Limited at a consolidated level is likely to sustain its scale of operations along with improvement in profitability supported by stable rental income, recovery in demand in chemical segment from Q4FY23 onwards, temporary discontinuance of operations of volatile conductor business segment along with need based support extended from promoter group entities.

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

Detailed description of the key rating drivers:

Key weaknesses

Low profitability with losses at PAT level, weak return indicators which deteriorated in 9MFY23: Operating profitability of the company on a consolidated basis has remained low in last three years ended FY22, its PBILDT margin declined to 7.56% at FY22 end (P.Y:10.30%), which further deteriorated in 9MFY23 with losses reported in chemical business segment. Also it continue to report losses at PAT level in last three years ended FY22 as well as in 9MFY23.
Chemicals segment which is housed in its subsidiary (HSCL) has been the main contributor towards consolidated revenue of HUIL. PBILDT margin of HSCL stood moderate with declining trend at 10.91% at FY22 end (P.Y:15.39%), further during 9MFY23 it has reported cash losses mainly on account of few fixed price contracts for raw material sourcing coupled with slowdown in demand in end user industries impacting overall profitability. Same is expected to improve from Q4 onwards with end of fixed price contracts.
Conductor business segment has been loss making since FY22 and operations of the same was temporarily discontinued from Q4FY23 [which was majorly exposed to raw material (aluminium) price volatility] while its insulator business segment which has stable margin in last three years ended FY21 had also shown decline in FY22 due to increase in key input prices (mainly petroleum, coal and metal etc.) and continue to have low segment PBIT margin of 1-3% in FY22 and 9MFY23 as compared to earlier margin of 13-14%. However, company has stable rental income which is expected to increase going forward with leasing of erstwhile properties of conductor business.
Overall, HUIL on a consolidated basis has reported net loss of Rs.49.77 crore during 9MFY23 (Rs.3.76 crore at FY22 end). Further, company on a consolidated basis has registered cash loss of ~Rs.29 crore during 9MFY23. However, this was largely funded by infusion of unsecured loans by promoter group entities. Company on a consolidated basis is expected to register cash profit from FY24 onwards with recovery in chemical segment from Q4FY23 onwards, temporary discontinuance of operations of volatile conductor business along with moderation in input prices. This apart the company also has stable rental income.

Weak debt coverage indicators and low return indicators
Debt coverage indicators of company at consolidated level stood weak marked by total debt to GCA of 22.87x (P.Y.: 12.30x) and PBILDT Interest Coverage of 1.36x (P.Y.: 1.35x) as on March 31, 2022. Also with high capital base and low profitability return indicators stood weak marked by low ROCE of 4% and negative RONW in FY22.

Vulnerability of its profitability to volatile input prices and foreign exchange fluctuation: Profitability of the company remains susceptible to volatility in prices of key inputs (mainly petroleum, coal and metal etc.). Any increase in prices may adversely affect company's profitability. Further, company's profitability is also exposed to foreign exchange fluctuations. The company partially hedges its forex exposure through derivative contracts. During FY22, HUIL had net loss on forex of Rs.0.02 crore vis-à-vis net loss on forex of Rs.0.05 crore in FY21.

Key strengths

Experienced promoters and management with need based support from group entities: HUIL is promoted by Mr Rajendra Prasad Mody who is the founder of the group. Mr Rajendra Prasad Mody was also the Member of Parliament in Rajya Sabha during 1992-98. He is also the former president of Indian Chamber of Commerce, Kolkata and trustee of Calcutta Port Trust. Mr. Raghavendra Anant Mody has been appointed as the Chairman of the board with effect from August 31, 2017. Mr. Raghavendra Anant Mody is the third generation of promoter's family graduated in commerce from the Calcutta University.
Mr. Deepak Kejriwal (Managing Director of HUIL group), is a member of The Institute of Chartered Accountants of India. He has been associated with the company since 1996 and has over 26 years of industrial experience. Furthermore, the operations of the company are managed by well qualified and experienced senior management team. Promoters/promoter group entities have provided need based support as and when required to support the operations and liquidity of HUIL. At consolidated level, promoters/promoter group entities have infused unsecured loans of total ~Rs.34 crore in 9MFY23 to fund the losses and support the business requirements.

Long track record of company with established relationship with its reputed clientele: HUIL has a long track record of over seven decades. HUIL on a standalone basis is engaged in manufacturing of HT insulators at Mandideep (Madhya Pradesh). Its subsidiary company Hindusthan Speciality Chemicals Ltd (HSCL) is engaged into manufacturing of Epoxy Resin (ER) at GIDC Industrial Estate of Jhagadia near Ankaleshwar, Gujarat. HUIL has well- diversified operations which presently can be classified into three divisions, viz, insulators, conductor and warehouse (i.e rental income) and Subsidiary business of Chemical division. Operations of conductor business segment has been temporarily discontinued due to segmental losses and high raw material

(aluminium) price volatility. The company's order book stood at Rs.112 crore (entirely for insulator division) as on March 01, 2023 to be executed at a period of 3 to 5 months.
Over the years, HUIL has developed established relationship with its customer base. For the Insulator business, the company derives major revenue from Transmission & Distribution (T&D) companies in private sector. Also, its client concentration has remained low with sales contribution from its top 5 clients remaining at around 16-20% over past three year ended FY22.

Growing scale of operations primarily driven by chemical business segment: HUIL at consolidated level has a diversified revenue profile with revenue from the sale of HT insulators and epoxy resin. The scale of operations of HUIL at consolidated level has registered y-o-y growth of 38% over previous year and stood at Rs.740 crore at FY22 end (P.Y.: Rs.537.23 crore), primarily driven by growth in chemical business segment of its subsidiary company HSCL. HSCL continues to be the main contributor to the overall revenue of HUIL, income contribution from chemical segment stood at 61% in FY22 (increased from 16% in FY20). While income contribution from Insulator division and Conductor division stood at 27% & 11% respectively in FY22. Further, during Q4FY23, company has temporarily discontinued operations of conductor business segment due to segmental losses and high raw material (aluminium) price volatility. During 9MFY23, consolidated scale of HUIL stood at Rs.553.48 crore ,with that income contribution from chemical & insulator business segments stood at 64% & 34% respectively, remaining income contribution was derived from conductor business and rental income.
Furthermore, the company also derives stable rental income from its erstwhile properties of conductor business. Income from rental stood at Rs.6.59 crore in FY22 and is expected to be around Rs.9-10 crore annually from FY24 onwards with renting out of more properties along with increase in rental charged by the company.

Moderate capital structure: Capital structure of the company on a consolidated basis stood moderate over past three years ended FY22 with overall gearing of 0.93x as on March 31, 2022 (0.88x as on March 31, 2020). Consolidated Networth of the company stood at Rs.400.79 crore at FY22 end (Rs.383.17 crore at FY21 end).

Liquidity: Stretched
The liquidity of HUIL is stretched marked by high limit utilization, below unity liquidity ratio and cash losses registered in 9MFY23 necessitating infusion of funds by promoter/promoter group entities. The average utilization of fund-based limits have remained high at around 90-95% for past 12 months ended March, 2023. Current ratio of the company remained low at 0.90x as on March 31, 2022. Further, Working capital requirement continues to be large because of sizable credit period which needs to be offered to reputed client along with sizable inventory holding. As on March 31, 2022, receivables stood at were 95 days (P.Y:113 days). This is however supported by a similar credit period available from suppliers with creditor of 100 days as on March 31, 2022 (P.Y:86 days). As a result, working capital cycle stood moderately elongated at 72 days at FY22 end, though improved from 119 days at FY21 end. However, Liquidity of the company is supported by need-based funding support from promoters through unsecured loans. At consolidated level, promoters/promoter group entities have infused unsecured loans of total ~Rs.34 crore in 9MFY23.

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Diversified	Diversified	Diversified	Diversified

Incorporated in 1959, HUIL (CIN: L31300DL1959PLC003141) was established by the name of 'The Indian Aluminium Cables Limited' and was later renamed to 'Hindusthan Vidyut Products Limited' before being renamed to its current name. The company is part of the Hindusthan Group which is promoted by Mr Rajendra Prasad Mody and family. The company was into manufacturing of the bare overhead conductors, operations of which was temporarily discontinued during Q4FY23. Presently, it is engaged into manufacturing of HT insulators (mainly Disc, Bushing and Solid Core types of insulators) at its manufacturing facility at Mandideep (Madhya Pradesh) with annual installed capacity of 14,400 MT. HUIL's subsidiary viz. Hindusthan Speciality Chemicals Limited (HSCL) was incorporated on July 11, 2003, by the name of Bharat Electric and Industries Limited and was subsequently renamed to its current name on September 11, 2013. HSCL is engaged into manufacturing of Epoxy Resin (ER) at its manufacturing facility at GIDC Industrial Estate of Jhagadia near Ankaleshwar, Gujarat with installed capacity of 17,400 MT.

Brief Financials (HUIL)-Consolidated (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (Prov.)
Total operating income	537.23	740.82	438.63
PBILDT	55.32	56.04	(18.73)
PAT	-3.29	-3.76	(49.77)
Overall gearing (times)	0.91	1.17	NA
Interest coverage (times)	1.35	1.36	NA

A: Audited Prov.: Provisional, NA: Not Available; Note: 'the above results are latest financial results available'

Brief Financials (HUIL)-Standalone (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (Prov.)
Total operating income	347.42	289.08	155.70
PBILDT	26.13	6.86	3.55
PAT	2.59	(12.50)	(7.29)
Overall gearing (times)	0.50	0.55	NA
Interest coverage (times)	1.12	0.31	NA

A: Audited Prov.: Provisional, NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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 - LT-Cash Credit		-	-	-	48.00	CARE BB; Stable
Fund-based - LT-Term Loan		-	-	November, 2023	4.55	CARE BB; Stable
Fund-based - LT-Working capital Term Loan		-	-	May, 2028	21.16	CARE BB; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	9.60	CARE BB; Stable / CARE A4
Non-fund-based - LT/ ST-BG/LC		-	-	-	49.69	CARE BB; Stable / CARE A4

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	48.00	CARE BB; Stable	-	-	-	-
2	Fund-based - LT-Working capital Term Loan	LT	21.16	CARE BB; Stable	-	-	-	-
3	Fund-based - LT-Term Loan	LT	4.55	CARE BB; Stable	-	-	-	-
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	49.69	CARE BB; Stable / CARE A4	-	-	-	-
5	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	9.60	CARE BB; Stable / CARE A4	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working capital Term Loan	Simple
4	Non-fund-based - LT/ ST-Bank Guarantee	Simple
5	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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.

Contact us

Media Contact	Analytical Contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Kalpesh Ramanbhai Patel Director **CARE Ratings Limited** Phone: +91-079-40265611 E-mail: kalpesh.patel@careedge.in
Relationship Contact Name: Deepak Prajapati Senior Director **CARE Ratings Limited** Phone: +91-079-40265656 E-mail: deepak.prajapati@careedge.in	Nikita Akshilesh Goyal Assistant Director **CARE Ratings Limited** Phone: +91-079-40265656 E-mail: nikita.goyal@careedge.in Arpita Christian Analyst **CARE Ratings Limited** E-mail: arpita.christian@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in