

HP Adhesives Limited (Revised)

October 04,2023

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|--|-----------------------------------|-----------------------------|---|
| Long Term Bank Facilities | 3.62 (Reduced from 6.31) | CARE BBB; Stable | Revised from CARE BBB-; Positive |
| Long Term / Short Term Bank Facilities | 37.96 (Enhanced from 33.00) | CARE BBB; Stable / CARE A3+ | Revised from CARE BBB-; Positive / CARE A3+ |

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in rating takes into consideration consistent improvement in scale of operations along with improvement in financial risk profile. In FY23 total revenue increased to Rs 233 crores i.e an increase of 42% as compared to FY22. The revenue increased owing to expansion in the distribution network as well as scale-up in relatively newer product categories like silicone sealants, etc. The PBILDT margins also improved to 8.15% as compared to 7.33% in FY22. The overall financial risk profile has improved with improvement in gearing ratios and coverage indicators since the reliance on external debt is low.

The ratings continue to derive strength from the extensive experience of the promoters in the adhesive industry, wide product portfolio with multiple SKUs, Pan India distribution network & improved debt metrics. The rating is 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: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations with total operating income exceeding Rs.400 crore on sustained basis.
- Improvement in the PBILDT and PAT margin exceeding 10% and 6% 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. 200 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
- Deterioration in the collection period exceeding 90 days with utilization of the working limit exceeding 90% on a sustained basis

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings' view that the company is likely to maintain steady growth of its revenue while continuing its satisfactory financial risk profile.

Detailed description of the key rating drivers

Key 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 5 depots located strategically across India catering to more than 1250+ 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 which forms ~10% of the revenue.

Wide Product Portfolio with varied applications and multiple SKUs

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

Over last few years, the company have expanded the product portfolio to multiple product categories including CPVC, PVC, uPVC solvent cements, silicone sealants, synthetic rubber adhesives, PVA adhesives and ancillary products (ball valves, teflon tapes, pipe lubricant, gasket shellacs and masking tapes). These products have multiple applications in plumbing, sanitary, drainage, agriculture sector, water supply, glass & glazing, automotive, furniture and wood working, foam & furnishing etc.

Consistent improvement in revenue and consistent profitability

In FY23 the revenue increase to Rs 233.67 crores from Rs 167.34 crores in FY22 i.e a increase of 41.56%. The increase was primarily on account of increase in volumes. The increased sales volume could be achieved owing to increased penetration, increase in number of distributors (CY:1250; PY 1150), recruitment in the sales team, scale-up in relatively newer product categories like silicone sealants and opening of the 5th sales depo in Ahmedabad, Gujrat. Further, in FY23 HAPL reported PBILDT margins of 8.15% (PY:7.33%) on account of softening raw material prices during H2FY23.

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

HAPL has 5 strategically located Depots across India to service more than 1250 distributors and domestic pipe companies. Expanding distribution reach is a constant focus area for HAPL and it strives to add 150+ distributors every year. It also caters to distributors and customers in more than 20 countries majorly being the US, Middle East, Africa, UK and SAARC nations. Exports business constitutes ~10% of sales in FY23.

Improved capital structure and comfortable coverage indicators

HPAL's overall gearing has improved to 0.06x (PY:0.14x) as on March 31, 2023 on account of reduction in debt and consistent growth in tangible net worth. Total debt/GCA of the company improved from to 0.57x (PY:2.00x) as on March 31, 2023. Further, PBILDT interest coverage ratio improved to 8.76x (PY:3.87x) in FY23.

Industry Outlook

The Adhesive market has reached pre-pandemic levels, and it is expected to grow steadily. Basis End-User Industries, the market is segmented into Aerospace, Automotive, Building and Construction, Footwear and Leather, Healthcare, Packaging, Woodworking and Joinery etc. The major factors driving the market are the growth in real estate, packaging industry, increasing electronic operations, and the growing aerospace industry in the country. However, growth of industry is tampered by the stringent environmental regulations regarding VOC (Volatile organic compounds) emissions.

Key weaknesses**Moderate scale of operations**

Despite its promoters being in this business for over 30 years, scale of operations is modest than many established brands. HAPL's tangible net worth was Rs 148.17 crores as March 31,2023 as compared to Rs 137.17 in the previous year.

Susceptibility to volatility in raw material prices and forex risk

The key 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 & production, geo-political factors and government regulations. Hence the prices tend to remain highly volatile. Further, the prices of raw material imported is dependent upon various global market conditions and supply chain disruptions. This further exposes HPAL to foreign exchange risk on account of its import payables for the raw materials purchased.

Working capital intensive nature of operations

The company's operations are working capital intensive and it remained stretched at 85 days in FY23 (PY: 82 days). However, post IPO the fund-based utilisation has reduced to 1.55% for the 12 months ended July 2023 which provides an additional liquidity buffer.

Liquidity: Adequate

HPAL's liquidity position is adequate with principal term loan repayment obligation of Rs. 3 crore in FY24 and 1 crore in FY25. The annual cash accruals are expected to be 22-30 crore during FY24-FY25. HPAL has Cash & Liquid Investments of Rs.1.39 crore, as on March 31, 2023. The fixed deposits of Rs 29.42 crores pertains to the IPO proceeds. The current ratio improved to 3.05x (PY:2.06x) as on March 31,2023. The operating cycle is moderate at 80 days in FY23 and working capital is majorly funded by IPO proceeds and internal accrual.

Assumptions/Covenants: Not Applicable

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

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](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|--------------------------|-----------|----------------------------|---------------------|
| Commodities | Chemicals | Chemicals & Petrochemicals | Commodity Chemicals |

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, 2022 (A) | March 31, 2023 (A) | Q1FY24 (UA) |
|----------------------------|--------------------|--------------------|-------------|
| Total operating income | 165.43 | 233.67 | 59.32 |
| PBILDT | 12.13 | 19.63 | 6.12 |
| PAT | 6.01 | 10.86 | 4.51 |
| Overall gearing (times) | 0.14 | 0.06 | - |
| Interest coverage (times) | 3.87 | 8.76 | - |

A: Audited UA: Unaudited; 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/Non-fund-based-LT/ST | | - | - | - | 31.25 | CARE BBB; Stable / CARE A3+ |
| Fund-based/Non-fund-based-LT/ST | | - | - | - | 6.71 | CARE BBB; Stable / CARE A3+ |
| Term Loan-Long Term | | - | - | 31/03/2025 | 3.62 | CARE BBB; Stable |

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/Non-fund-based-LT/ST | LT/ST* | 31.25 | CARE BBB; Stable / CARE A3+ | - | 1)CARE BBB-; Positive / CARE A3+ (15-Nov-22) | 1)CARE BBB-; Stable (12-Nov-21) | - |
| 2 | Fund-based/Non-fund-based-LT/ST | LT/ST* | 6.71 | CARE BBB; Stable / CARE A3+ | - | 1)CARE BBB-; Positive / CARE A3+ (15-Nov-22) | 1)CARE A3 (12-Nov-21) | - |
| 3 | Term Loan-Long Term | LT | 3.62 | CARE BBB; Stable | - | 1)CARE BBB-; Positive (15-Nov-22) | 1)CARE BBB-; Stable (12-Nov-21) | - |

*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/Non-fund-based-LT/ST | Simple |

| | | |
|---|---------------------|--------|
| 2 | Term Loan-Long Term | 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

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About us:

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