

HP Adhesives Limited

September 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	0.13 (Reduced from 3.62)	CARE BBB; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	37.96	CARE BBB; Stable / CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The re-affirmation of ratings assigned to bank facilities of HP Adhesive Limited (HPAL) takes into consideration consistent scale of operations, comfortable financial risk profile and improved profitability in FY24.

In FY24 the revenue of Rs 236.97 crores was consistent with that reported in FY23 of Rs 233.67 crores. The PBILDT margins improved to 13.40% in FY24 (PY: 8.42%) owing to the decline in average raw material prices in FY24. Further, HPAL's dependence on external debt is low marked by low working capital utilisation and no major term loan repayments. As on March 31, 2024 the overall gearing was 0.02x.

The ratings continue to derive strength from the extensive experience of the promoters in the adhesive industry, wide product portfolio with multiple SKUs and Pan India distribution network. 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.300 crore on sustained basis.
- Sustenance of the PBILDT and PAT margin at 11% and 6% respectively
- 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 4% 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 key rating drivers:

Key strengths

Extensive experience of the promoters in the adhesive industry

HPAL was founded by Mr Haresh Motwani and Mrs Anjana Motwani in 1987 and is currently managed by Mrs Anjana Motwani (Chairperson), Mr Karan Haresh Motwani (Managing Director) and Ms Nidhi Haresh Motwani (Executive Director). With experience of more than three decades in the industry, the promoters have been able to create niche in the sealant & adhesive segment with its leading products like solvent cements and silicone sealant. HPAL has grown from a single product category to a multi-product portfolio of adhesives & sealants and currently has a installed capacity of 13500 MTPA. HPAL also caters to the international market with its presence in more than 21 countries.

¹Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited'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 solvent cements, silicone sealants, synthetic rubber adhesives, rubber lubricant, PVA adhesives, gasket shellacs etc. HPAL also trades in ancillary products like ball valves, Teflon tapes, spray paints and masking tapes. HPAL's products have multiple applications in plumbing & sanitary works, drainage & water supply works, glass & glazing, automobile industry, furniture & wood working, PVC flooring etc.

Consistent scale of operations and improved profitability in FY24

In FY24 the revenue of Rs 236.97 crores was consistent with that reported in FY23 of Rs 233.67 crores. In FY23 the growth in revenue of ~42% was owing to increased distributors (FY23:1250; FY22 1150), recruitment in the sales team, introduction of new products namely epoxy putty & epoxy adhesives and opening of the 5th sales depo in Ahmedabad, Gujrat. Further in FY24 HPAL reported improved PBILDT margin of 13.40% (PY: 8.42%) owing to the decline in average raw material prices in FY24.

Pan-India distribution network and presence in international markets

HPAL has 5 strategically located Depots across India to service more than 1450 distributors. Expanding distribution reach is a constant focus area for HPAL and it strives to add 150+ distributors every year. It also caters to international market with its presence in more than 21 countries majorly being the US, Middle East, Africa, UK and SAARC nations. Exports business constitutes ~9% of sales in FY24.

Comfortable financial risk profile

With moderate profitability, absence of any major debt-funded capital expenditure plans, low reliance on external borrowings to fund working capital and low term loan obligations the financial risk profile is expected to remain comfortable over the medium term. As on March 31, 2024 HPAL reported net worth of 168.69 crores and the overall gearing was as low as 0.02x. The TOL/TNW was low at 0.17x (PY 0.25x) in FY24. The coverage indicators are comfortable with interest coverage of 17.15x (PY:8.60) and TD/GCA of 0.13x (PY:0.57x) in FY24.

Key weaknesses

Moderate scale of operations

The scale of operations continue to be modest than many established brands. HPAL's tangible net worth was Rs 168.69 crores as on March 31, 2024 as compared to Rs 148.17 in the previous year.

Susceptibility to volatility in raw material prices and forex risk

The company is exposed to raw material price volatility. Some of the key raw material used in the manufacturing of HPAL's products are derivative of crude oil. 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. HPAL passes on the increase in raw material prices to its customers with a lag. Further, around 30% of the raw material and traded goods requirements are imported which further exposes HPAL to foreign exchange risk.

Working capital intensive nature of operations

HP has moderately high working capital requirements, Gross Current Asset (GCA) days were 142 days (PY:130 days) in FY24. The average creditor days in FY24 were 32 days (PY:43 days). The working capital is mainly funded by IPO proceeds and internal accrual leading to lower reliance on external funds.

Liquidity: Adequate

HPAL's liquidity position is adequate marked by liquidity in form of cash/bank balance & mutual funds and low term loan repayment obligation against consistent cash accruals. As on March 31, 2024 HPAL had free cash/bank balance of Rs 8.31 crores and mutual funds of Rs 18.19 crores. For FY25 and FY26 HPAL had annual repayment obligation of ~Rs 1.68 crores and the projected annual cash accruals in the said period is expected to be in the range of Rs 20 crores to Rs 24 crores. The average fund based working capital utilization of its sanctioned facility of Rs 28.75 crores was as low as ~5% for past twelve months ending July 2024 which provides additional liquidity buffer. Further, the current ratio as on March 31, 2024 was 4.51x (PY:3.05x).

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic 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" as per 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's manufacturing facility is located at Raigad (Maharashtra) is a multiproduct manufacturing facility with a total manufacturing capacity of 13500 MTPA

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	233.67	236.97	60.52
PBILDT	19.68	31.76	7.57
PAT	10.86	20.57	5.63
Overall gearing (times)	0.06	0.02	-
Interest coverage (times)	8.60	17.15	-

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and 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	0.13	CARE BBB; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based/Non-fund-based-LT/ST	LT/ST	31.25	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (04-Oct-23)	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; Stable / CARE A3+ (04-Oct-23)	1)CARE BBB-; Positive / CARE A3+ (15-Nov-22)	1)CARE A3 (12-Nov-21)
3	Term Loan-Long Term	LT	0.13	CARE BBB; Stable	-	1)CARE BBB; Stable (04-Oct-23)	1)CARE BBB-; Positive (15-Nov-22)	1)CARE BBB-; Stable (12-Nov-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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