DECEMBER 23, 2016

# CARE PLACES THE RATINGS ASSIGNED TO THE BANK FACILITIES OF HMT LIMITED ON CREDIT WATCH WITH DEVELOPING IMPLICATIONS

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Remarks |
|---|---|---|---|
| Fund-based-Long-term-Cash Credit | 44.56 | CARE B- (Single B minus) (under credit watch with developing implications) | **Placed on credit watch with developing implications** |
| Non-fund-based- Short-term-LC/BG | 11.25 | CARE A4 (A Four) (under credit watch with developing implications) | **Placed on credit watch with developing implications** |
| **Total** | **55.81 (Rupees Fifty Five crore and Eighty One lakh only)** | | |

**Rating Rationale**

The above ratings have been placed under 'Credit watch with developing implications', in view of Government of India (GOI) approving closure of operations of HMT Limited's (HMT) Tractor division and also to provide financial assistance to HMT Limited to discharge all liabilities of Tractor division, including bank loans. The GOI also approved for restructuring of balance sheet of HMT by reduction of paid up capital to the extent of accumulated losses of Tractor division amounting Rs.848.5 crore against GOI paid up equity shareholding in the company of Rs.1,204.1 crore.

Tractor division of the company was contributing more than 90% of sales of the company. With high employee cost and lower capacity utilization, HMT continues to post losses with declining level of operations on Y-o-Y basis. With GOI deciding to close down the HMT's tractor division, company is expected to surrender its rated bank facilities. Considering the above, the ratings of HMT are placed under credit watch with developing implications.

CARE would take appropriate view on the ratings, once the exact implications of the above events are clear.

**Background**

HMT was incorporated in 1953 by the Government of India (GOI) as Hindustan Machine Tools Pvt. Ltd., subsequently renamed as HMT Limited on August 31, 1978. The company was primarily engaged in the manufacturing of watches, tractors, printing machinery, metal forming presses, die casting plastic processing machinery, CNC systems and bearings. In 1990, the company was restructured into different business groups such as machine tools business group, industrial machinery business group, tractor business group, consumer business group and food processing business group. In the year 1999-2000, these business groups were regrouped and made subsidiaries of holding company HMT Limited. HMT spun off machine tools and watch business into subsidiary companies and tractor division was retained with HMT. HMT had five subsidiaries, viz, HMT Machine Tools Ltd. (rated 'CARE D'), HMT Watches Ltd., HMT Chinar Watches Ltd., HMT (International) Ltd. and HMT Bearings Ltd.

During January 2016, Cabinet Committee on Economic Affairs (CCEA) approved closure of three of its subsidiaries, viz, HMT Watches Ltd., HMT Chinar Watches Ltd. and HMT Bearings Ltd. Accordingly, in FY16 (refers to the period April 1 to March 31), company has extinguished redeemable preference shares and set it off against the loans and advances extended to these subsidiaries to the extent of Rs.623.14 crore.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

**Analyst Contact**
Name: Mr Karthik Raj K
Tel: 080-46625527
Cell: 9980562244
Email: karthik.raj@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

*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.*

**Disclaimer:** CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

CONTACT

**Head Office Mumbai**

**Mr. Amod Khanorkar**
Mobile: + 91 98190 84000
E-mail: amod.khanorkar@careratings.com

**Mr. Saikat Roy**
Mobile: + 91 98209 98779
E-mail: saikat.roy@careratings.com

**CREDIT ANALYSIS & RESEARCH LIMITED**
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

**AHMEDABAD**
**Mr. Mehul Pandya**
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

**BENGALURU**
**Mr. Deepak Prajapati**
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

**CHANDIGARH**
**Mr. Sajan Goyal**
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

**CHENNAI**
**Mr. V Pradeep Kumar**
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

**COIMBATORE**
**Mr. V Pradeep Kumar**
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

**HYDERABAD**
**Mr. Ramesh Bob**
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

**JAIPUR**
**Mr. Nikhil Soni**
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

**KOLKATA**
**Ms. Priti Agarwal**
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

**NEW DELHI**
**Ms. Swati Agrawal**
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

**PUNE**
**Mr.Pratim Banerjee**
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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