Hitech Corporation Limited

September 17, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Fixed Deposit Programme	0.52 (reduced from 3.04)	**CARE A+ (FD); Stable [Single A Plus (Fixed Deposit); Outlook: Stable]**	**Reaffirmed**
Total Facilities	**0.52 (Rs. Fifty two lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the Fixed Deposit Program of Hitech Corporation Limited (HCL) continues to derive strength from vast experience and resourcefulness of the promoters, strong business relationship with Asian Paints Limited, well established market presence in the paint packaging industry benefitted by its multi-location manufacturing facilities situated in close proximity to its clients and reputed clientele base across diverse industries. Further, the ratings also factor in the company's healthy financial risk profile characterized by large networth base, stable operating performance and comfortable capital structure/debt coverage indicators in FY18 (refers to the period from April 01 to March 31) and Q1FY19.

The rating strengths, however, is tempered by HCL's working capital intensive operations, project implementation and stabilisation risk associated with the significant debt funded capex, profit margins susceptible to volatile polymer prices, underlying cyclicality of end customer segments and prevailing intense competition in the packaging industry.

Going forward, HCL's ability to garner the expected revenues and improve profit margins as envisaged amidst competitive environment and volatile raw material prices remain the key rating sensitivities. Further, the company's ability to sustain capital structure at comfortable levels on the back of successful implementation and commissioning of ongoing capex as envisaged without project cost/time overrun are the other key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful management

Hitech Corporation Ltd (HCL) is promoted by Mr Ashwin Dani, chairman of HCL and one of the three promoters of Asian Paints Ltd, India's largest paint company. Mr Ashwin Dani has about five decades of experience in the paint industry and has been associated with Asian Paints Ltd since 1968. The day-to-day operations of HCL are managed by a team of qualified and experienced personnel headed by Mr Malav Dani (Managing Director), son of Mr Ashwin Dani. Under the present management, HCL has been able to establish itself as one of the major suppliers of packaging material for paint industry. HCL benefits immensely from reputation and resourcefulness of its promoters. The company is governed by 10-member Board having rich experience in the industry along with eminent and well-qualified professionals from different fields.

Business linkages with Asian paints and wide spread presence of manufacturing plants

For the year ending March 31, 2018 the company derived around Rs.226.39 crore of sales forming 58.73% of its total revenues from sale of packaging products to Asian Paints Limited(APL) and hence the company's fortune in largely linked to growth of APL sales volumes. Additionally, being driven by promoters having significant experience in the Indian paint industry helps the company to understand its client needs better. Besides, HCL has its 12 manufacturing plants spread across the country and the plants are strategically located near to its client which helps the company to keep the transportation cost low and cater to its clients. The strategy has also helped the company to maintain its position as one of the leading supplier of packaging materials to APL.

Well established and reputed clientele base

The company is a well-established player in the plastic based rigid container segment and acts as a preferred vendor for marquee customers across various industries which ensures repeat orders and assured realisations. The company's clientele base includes well established and reputed players like Asian Paints Ltd, Berger Paints Ltd, Reckitt Benckiser (India) Limited, Procter & Gamble Hygiene & Health Care Ltd, Nestle India Ltd, Pidilite Industries Ltd etc.

Stable operating performance in FY18 and Q1FY19

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

During FY18, the company's operating performance remained fairly stable characterized by moderate growth in revenues by 5.76% to Rs.389.11 crore as compared to Rs.367.90 crore in FY17. This is mainly on account of price revision taken during the year in order to mitigate the effect of rise in input cost. However, owing to the subdued demand from end user industries the sales volume declined 5.28% on y-o-y basis in FY18. Further, the operating profit margins remained steady at around 9.75% as compared to 9.73% for the year ending March 31, 2018 which displays the company's ability to pass on any increase in input cost. However, increase in debt owing to debt funded capex has led to higher finance cost resulting into moderation in profit margins at PAT levels.
During Q1FY19, the company registered growth in revenues by around 19.22% to Rs.110.24 crore as compared to Rs.92.47 crore on account of growth in sales volume as well as increase in price realization. This along with stabilisation of Rohtak plant has led to improvement in PBILDT margins to 10.42% in Q1FY19 as compared to 9.44% in Q1FY18.

Comfortable capital structure and debt coverage indicators
The company's capital structure though deteriorated from 0.90x as on March 31, 2017 to 1.36x as on March 31, 2018; yet it is considered to remain at comfortable levels. The deterioration is gearing levels is owing to debt funded capex being undertaken by the company coupled with increase in reliance on debt to fund its working capital requirements. However, the capital structure of the company is supported by a large networth base. HCL's debt coverage indicators such as interest coverage ratio and total debt to GCA though moderated from 3.86x and 5.69x in FY17 to 2.73x and 7.93x respectively in FY18; yet it continues to be at comfortable levels. Moreover, the company also benefits from reputation of promoters in the industry which may help the company to raise additional capital in case of any exigency.

Key Rating Weakness
Working capital intensive nature of operations
The company maintains raw material inventory of about 20-25 days, processing of raw materials and dispatch of finished goods takes another 7-10 days. Moreover, owing to intense competition in the industry, HCL needs to extend credit period of around 90 to 120 days to its customers. On the other hand, the company needs to make payment in the range of 2-90 days to its suppliers. This leads to high working capital cycle for the company. As on March 31, 2018 the company had average working cycle of 115 days. Besides, having fund based limits and bills discounting facility, the company partially funds its working capital requirements by discounting bills from Asian Paints Limited. For the last twelve months ending July 2018 the company's utilization of fund based limits was moderate at around 78%.

Project implementation risk
The company has significant capex plans in the medium term involving setting up of two green field projects in Mysore and Visakhapatnam to cater to the needs of upcoming plants at Mysore and Vishakhapatnam. The capex towards Mysore and Visakhapatnam plants is expected to incur around Rs.117 crore during FY18 to FY19 period. The capex is planned to be funded through debt of Rs.75 crore, refund against insurance claim amounting to Rs.15 crore, and remaining through internal accruals. The debt is already tied up. Of this, the company has already spent Rs. 39.85 crore towards the Mysore plant and Rs.8.43 crore towards Vishakhapatnam plant. The Mysore plant is expected to be completed by Q3FY19 and Vishakhapatnam plant is expected to be completed by March 2019. However, if the insurance claim refund does not come by Q3FY19, the Visakhapatnam project may extend upto Q1FY20. Besides, the company plans to incur capex of Rs.16.00 crore towards modernization of its existing plants in FY20 and a capex of Rs.37.00 crore in FY21 towards capacity expansion at one of its plants. Thus, the overall size of capex involved is around Rs.170 crore of which the company has already spent Rs.48.28 crore. Hence, the overall size of capex being undertaken is significant as compared to its networth and as major part of the project execution is expected to happen; the company is exposed to project implementation and stabilization risk. Going forward, timely and successful implementation of capex resulting into generation of cash flows as envisaged is a key rating monitorable.

Susceptibility of profit margins to volatility in polymer prices
The company's majority of raw materials are polymers, which are a derivative of crude oil. Crude oil being volatile in nature, it affects company's input prices. The company revises its price of its products every month for majority of its customers and quarterly for others. Hence the company's profit margins remains exposed to volatility in raw material prices to the extent of time lag in passing on increase in input cost.

Cyclicality in end user industries
HCL's performance is exposed to the underlying cyclicality of end customer segments (such as lubes and paints). However, the growth outlook for these segments remains comfortable in the medium term

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]
[Rating Methodology: Factoring Linkages in Ratings]

About the Company
Incorporated in 1991, Hitech Corporation Limited (HCL) is promoted by Mr Ashwin Dani, one of the three founder promoters of Asian Paints Ltd. HCL started its operations by manufacturing thin walled cylindrical, and injection moulded plastic containers called "BoCans". The company is presently engaged in the manufacturing and sale of innovative polymer products like pails or containers or buckets to various industries like paint, personal care, agro chemicals, health care, confectionary, lube and retail household products. The company derives majority of its revenues from paint container segment. HCL has 12 manufacturing units and one technology centre and is one of the largest manufacturers of paint containers in the India with combined capacity of 35,000 mtpa as on March 31, 2018. The company has prominent clientele base which include companies such as Asian Paints Ltd., Pidilite Ltd & Glaxosmithkline Consumer.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	367.90	389.11
PBILDT	35.79	37.95
PAT	9.36	7.76
Overall gearing (times)*	0.90	1.36
Interest coverage (times)	3.86	2.73

*A: Audited; *including bill discounting with Asian Paints*

Status of non-cooperation with previous CRA: None
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *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.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fixed Deposit	-	-	September 27, 2018	0.52	CARE A+ (FD); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fixed Deposit	LT	0.52	CARE A+ (FD); Stable	-	1)CARE A+ (FD); Stable (29-Aug-17)	1)CARE A+ (FD) (18-Aug-16)	1)CARE A+ (FD) (14-May-15)

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