**Press Release**

**Hindustan Equipments Private Limited**

**February 11, 2020**

**Ratings**

| Sl. No. | Instrument/Facility | Amount (Rs. Crore) | Rating Assigned |
|---|---|---|---|
| 1 | Long Term Fund Based Facility - Cash Credit | 45.58 | IVR BBB-/ Stable outlook (IVR Triple B Minus with stable outlook) |
| 2 | Long Term Facility – Term Loan | 25.50 | IVR BBB-/ Stable outlook (IVR Triple B Minus with stable outlook) |
| 2 | Short Term/Long Term Non-Fund Based Facility - Bank Guarantee | 22.10 | IVR A3 (IVR A Three) |
| | **Total** | **93.18** | |

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The rating derives strength from the Experienced team of directors and key executives, Highly diversified and reputed clientele base, Significant growth in scale of operations and profitability, Customised Products and Services with leveraging technology to increase efficiency, However, these strengths are, partially offset by Moderate gearing and debt coverage indicators, Working Capital Intensive Operations and Revenues Overexposed to a Single Sector .

**Key Rating Sensitivities**

**Upward rating factor(s)** – Significant & sustained improvement in debt protection metrics along with improvement in profitability margins could lead to a positive rating action

**Downward rating factor(s) -** Any deterioration in the debt protection metrics and/or profitability margins may lead to a negative rating action.

**List of key rating drivers with detailed description**

**Key Rating Strengths**

**Experienced team of directors and key executives**

Hindustan Equipments Private limited is currently led by Mr. Pratik Tongia (Director) and his wife Charu Tongia (Director). Mr. Pratik Tongia has done his mechanical engineering from Shri Govindram Seksaria Institute of Technology and Science (SGSITS), Indore and has an industry experience of 22 years. He looks into the technical and technological aspects of the business. Mrs. Charu Tongia holds a degree in Masters of Business Administration and has an experience of more than 15 years in her field. She looks into the HR related activities of the company. Mr. Jitendra Thakur, Mr. Sanjay Karnawat and Mr. Pankaj Neema are the heads of marketing, production and Accounts and Taxation respectively. All of them have above 20 years of industry experience.

**Highly diversified and reputed clientele base – government and private**

The company's top 5 clients account for ~28% of the total revenue of FY19 indicating a diversified clientele base. Moreover, the clients of the firm include esteemed government clients such as Kutch Dist. Co-op. Milk Producer Union Ltd., National Dairy Development Board – Kolhapur, Rajasthan Co-Op. Dairy Federation Ltd. and Banaskantha District Cooperative Milk Producers' Union Limited (Amul Subsidiary) as well as private clients such as Kissan Fodder Mills Private Limited, Suguna Foods Private Limited and Total Agri Services Ahmedabad, Private Limited Mumbai etc.

**Significant growth in scale of operations and profitability**

The companies witnessed a healthy growth in operation, growing at a CAGR of ~21% over the last three years. Total operating income of the company increased by ~7.05% from Rs. 105.94 crore in FY18 to Rs. 113.41 crore in FY19 on account of capacity additions in FY19. The EBITDA Margin of the company was ~11.62% in FY17 which increased to ~13.00% crore in FY19 due to economies of scale. The PBT and PAT Margin of the company increased to 5.65% and 3.56% in FY19 from 2.19% and 2.09% in FY17 respectively indicating reasonable growth in profitability. The profitability ratios have shown a sincere improvement in the 9 month results of FY20 from FY19. The EBITDA, PBT and PAT margins have improved significantly from 12.22%, 4.52%, 3.89% in 9MFY19 to 14.38%, 7.79%, 5.83% in 9MFY20. Also the interest coverage ratio has seen an improvement from 2.73x in 9MFY19 to 3.46x in 9MFY20. This stinted improvement can be accredited to the capex made in FY19 of CNC Machineries from Germany which has reaped its results for increased efficiency and overall business improvement.

**Customised Products and Services with leveraging technology to increase efficiency**

The company has shifted its major work to computerised numerical control (CNC) Equipment based technology. The company has purchased some machines from Germany based on CNC technology for the smooth and efficient working which would enable automated machines to handle customised production as per the requirements given by the clients with international quality standards. This resulted in saving on manufacturing costs, increase the speed of production, increase safety and increase efficiency of production.

**Significant progression in the 9 month Results**

**Key Rating Weaknesses**

**Moderate gearing and debt coverage indicators**

The company's overall gearing and Long term debt to equity ratio as on 31st March 2019 stood at 2.57x and 1.87x. The Total outside liabilities to Tangible net worth ratio as on account closing day of FY19 stood at 4.23x. Overall gearing remained elevated due to on-going capex till H1FY20. The company doesn't have any capex in the short to medium term. Incremental benefits from the capex along with schedule repayment of term loan leads to improvement in overall debt protection metrics.

**Working Capital Intensive Operations**

The average collection period for FY19 is 75 days and the inventory holding period is 91 days. This implies working capital intensive operations where much of the company cash is locked up with the customers. On average, the company takes around 66 days to pay its suppliers. The operating cycle of the company on an average is 100 days.

**Revenues Overexposed to a Single Sector**

Around 78.67% of the company's revenue of FY19 came from the agro-processing sector. This sector is a singular major source of revenue for the company. However, changing lifestyles and rising per capita incomes in India have resulted in a shift in the dietary habits in the country. This has resulted in an increase in the consumption of milk and meat, leading to a growing demand for the agro-processing industry to flourish..

**Analytical Approach & Applicable Criteria**

Standalone

Rating methodology for engineering companies

Financial ratios and Interpretation (Non-Financial Sector)

**Liquidity: Adequate**

The liquidity of the company is Adequate. The GCA of the company stands comfortably at INR 8.73 crore which is reasonably enough to pay the debt obligations of the company. The interest coverage ratio stands comfortably at 2.74x as on 31st March, 2019. The bank limits of the company have had an average utilisation of 94.45%. The current ratio of the company stands at 1.27x as on 31st March, 2019.

**About the Company**

Hindustan Equipments Private Limited was incorporated in the year 1987 under the name "Nutrichem Feeds Private Limited" by Mrs. Asha Badjatiya, Mr. Vijay Badjatiya and Mr. Vini Badjatiya. Later in the year 1998, the name of the company was changed to "Hindustan Equipments Private Limited". The company is currently led by Mr. Pratik Tongia (nephew of Mr. and Mrs. Badjatiya) and his wife Charu Tongia.

The company was initially engaged into manufacturing of animal feed products which later was changed to manufacturing of machineries and equipment for cattle feed and poultry feed applications & bulk grain handling solutions on turnkey basis and providing heat treatment services. The company is also engaged in providing job work services to engineering sector companies such as Jash engineering, Caparo, Hi-tech Metal and many more.

**Financials (Standalone)** **(Rs. crores)**

| For the year ended* / As On | 31-03-2018 (Audited) | 31-03-2019 (Audited) |
|---|---|---|
| Total Operating Income | 105.94 | 113.41 |

| | | |
|---|---|---|
| EBITDA | 13.29 | 14.74 |
| PAT | 1.24 | 4.07 |
| Total Debt | 49.97 | 72.50 |
| Tangible Networth | 22.90 | 28.22 |
| EBITDA Margin (%) | 12.54 | 13.00 |
| PAT Margin (%) | 1.17 | 3.56 |
| Overall Gearing Ratio (x) | 2.18 | 2.57 |

*Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** N.A.

**Any other information:** N.A

**Rating History for last three years:**

| Sl. No. | Name of Instrument/ Facilities | Current Rating (Year 2019-20) | | | Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Type | Amount outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 | Date(s) & Rating(s) assigned in 2016-17 |
| 1. | Long Term Fund Based Facilities – Cash Credit | Long Term | 45.58 | IVR BBB-/ Stable outlook | -- | -- | -- |
| 2. | Long Term Facilities – Term loan | Long Term | 25.50 | IVR BBB-/ Stable outlook | -- | -- | -- |
| 3. | Non-Fund Based Facilities – Bank Guarantee | Short Term | 22.10 | IVR A3/ | | | |

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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**About Infomerics:**

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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**Annexure 1: Details of Facilities**

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|---|---|---|---|---|---|
| Cash Credit | -- | -- | On Demand | 45.58 | IVR BBB-/ Stable outlook |
| Term Loan | -- | -- | September, 2020 to September, 2026 | 25.50 | IVR BBB-/ Stable outlook |
| Bank Guarantee | -- | -- | upto 36 months | 22.10 | IVR A3 |