

No. CARE/HO/RL/2018-19/2874

Mr. Bharat Gosalia,
 Chief Financial Officer,
 Hitech Corporation Limited,
 Unit No. 201/203, 2nd Floor,
 Welspun House, Kamala City, Senapati Bapat Marg,
 Lower Parel (W), Mumbai – 400013

September 10, 2018

Confidential

Dear Sir,

Credit rating for Fixed Deposit (FD) programme

On a review of recent developments including operational and financial performance of your company for FY18 (audited) and Q1FY19 (Unaudited), our Rating Committee has reviewed the following rating:

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Fixed Deposit programme	0.52* (Rupees Fifty two lakh only)	CARE A+ (FD); Stable [Single A Plus (Fixed Deposit); Outlook Stable]	Reaffirmed

*outstanding as on August 24, 2018

- The FD programme is for tenure of 12 months to 36 months.
- Please arrange to get the rating revalidated, in case the entire rated amount is not placed within six months from the date of this letter.
- In case there is any change in the size or terms of the proposed FD programme, please get the rating revalidated.
- Kindly arrange to submit us a copy of each of the documents pertaining to the FD programme.
- To enable CARE to monitor the rating with reference to the amount of FD mobilised, you may please inform CARE when the level of deposit reaches the amount specified.
- The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as Annexure. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

as early as possible. In any case, if we do not hear from you by September 13, 2018, we will proceed on the basis that you have no any comments to offer.

8. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
9. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the FD programme, CARE shall carry out the review on the basis of best available information throughout the life time of such FDs. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
10. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
11. CARE ratings are **not** recommendations to buy, sell, or hold any securities.

If you need any clarification, you are welcome to approach us in this regard.

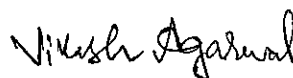
Thanking you,



[Krishna Pandey]

Deputy Manager

krishna.p@careratings.com



[Vikash Agarwal]

Sr. Manager

vikash.agarwal@careratings.com

Yours faithfully,

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/outlooks 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/outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook 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.

Annexure I

Press Release

Hitech Corporation Limited

Ratings

Facilities	Amount (Rs. crore)	Rating ²	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 cyclicity 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.

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

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 is 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

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 in 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 network 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.

Cyclicalities in end user industries

HCL's performance is exposed to the underlying cyclicalities 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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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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)

(Handwritten mark)