Press Release

HYT Engineering Company Private Limited

April 01, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1.	Long Term Facility – Fund Based – Cash Credit	140.00	IVR BBB / Stable Outlook (IVR Triple B with Stable Outlook)
2.	Long Term Facility – Fund Based – Term Loan	66.00	IVR BBB / Stable Outlook (IVR Triple B with Stable Outlook)
3.	Long Term / Short Term Facility – Non Fund Based – Bank Guarantee	303.25	IVR BBB / Stable Outlook (IVR Triple B with Stable Outlook) / IVR A3+ (IVR A Three Plus)
4.	Short Term Facility – Non Fund Based – Letter of Credit	30.25	IVR A3+ (IVR A Three Plus)
	Total	**539.50**	

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of HYT Engineering Company Private Limited derives comfort from it being an established player with extensive experience of promoters in turnkey projects, customized solutions provider having collaborations with international entities, healthy revenue growth and improvement in profitability, healthy order book and established relationship with customers ensuring repeat orders, comfortable capital structure and a strong logistics network. However, the rating strengths are partially offset by working capital intensive nature of operations, raw material price fluctuation risk, concentrated clientele comprising of government entities and inherent project execution risk.

Key Rating Sensitivities

Upward factors:

- Successful commissioning and completion of project without any time or cost overruns leading to liquidated damages.
- Maintaining profitability as projected backed by a steady order book.

Downward factors:

- Sharp changes in leverage
- Slowdown in order book addition and execution
- Further delay and elongation of trade receivables

Key Rating Drivers with detailed description

Key Rating Strengths

Established player with extensive experience of promoter in turnkey projects

HECPL was founded in the year 1977 spearheaded by Mr. Bhojraj Hemraj Teli who is presently the Managing Director of the company; he has over 30 years of experience majorly catering to the Indian Railways, his experience has been instrumental in forging long term relationships with their clients. The company has over 4 decades of operational track record in manufacturing of special purpose machinery and undertaking EPC work for Indian Railways and Metros. They are primarily engaged in three business verticals involving the manufacture of machinery that are used in railway workshops, Turnkey Projects mostly mechanical and electrical in which the company supplies machines on the basis of orders taken and Transfer of Technology model in which they undertake ventures with parties (both domestic and international) in manufacturing machines that are either exported or utilised in in-house activities. The company enjoys a near-monopoly status in manufacturing of special purpose lathe machines and it caters to the Indian Railways.

Customised solutions provider having collaborations with international entities

HECPL has successfully undertaken projects by collaborating with international construction companies such as SMH Railways (Malaysia), Naledi Rail Engineering (South Africa) and other major firms. In addition to designing and manufacturing machines HECPL also provides integrated and customised services to its national and international clients. Along with installation & commissioning and reconditioning & repairing works. Previously the company has had arrangements with reputed US, Netherlands and Italy – based companies for construction of coil spring manufacturing facility in Chennai, along with joint collaborations to manufacture machinery used for the purpose of setting up of railways in South Africa and Malaysia.

Healthy revenue growth and improvement in profitability

The company has demonstrated strong execution capability in the past three years by successfully completing projects reputed entities such as COFMOW (Central Organisation for Modernisation of Workshops), ICF (Integral Coach Factory), Northern Railway, Indian Railway Workshop Projects etc., which has seen the top-line of the company increase manifold by ~30.84% CAGR from FY17 to FY19, supported by an increase in EBITDA from Rs. 66.50 crore in FY18 to Rs. 76.59 crore in FY19, this is backed by an increase in order execution.

Healthy order book and established relationship with customers ensuring repeat orders

As on the 29.02.2019, HECPL has an unexecuted order book amounting to Rs. 1493.76 cr. which is encouraging when compared to its revenues in FY19 amounting to Rs. 351.83 cr., the company expects to witness substantial revenue growth in the medium term as they aim to fulfil the unexecuted portion of the order book, amounting to 4.24 times the revenues in FY19; 2020. HECPL has established concrete relationships with reputed customers in the market which has resulted in repeat orders of sizeable numbers. The company executed orders for Indian Railways and its various departments (which has constituted majority of their customer base – including Central Organisation for Modernisation of Workshops, Northern Railways, Carriage Repair Workshop), GE Diesel Locomotive Pvt Ltd and Integral Coach Factory.

Comfortable Capital Structure

The company's debt profile mainly comprises of short term borrowings; off the total debt amounting to Rs. 145.21 crore in FY19 – Rs. 106.25 core amounts to short term borrowings and Rs. 38.96 crore pertains largely towards long term loans taken for the purpose of purchase of machinery. The capital structure, as indicated by Total Outside Liabilities / Tangible Net Worth (TNW), stands at a healthy level of 1.96 times in FY19. Going forward, the company has drawn up plans for an aggressive scale-up of operations, wherein they would be increasing the leverage to facilitate capital expenditures and other expansion plans; these factors are dependent on the ability of the company to execute their contracts in a timely manner and sustain profitability.

Strong logistics network

The company has a good supplier network. Its top ten suppliers constitute around 6.5% of its total raw material purchases which indicates a fairly diluted supplier network. Further, majority of its suppliers are located in its close vicinity within the bounds of the states that they operate in; which helps the company to save on logistics and prevent any supply chain disruptions. The suppliers being in close vicinity is advantageous to the company as it helps in avoiding bottlenecks and creates operational efficiencies. Moreover, the company has a policy of procuring raw materials for the first time at the time of obtaining the orders as this enables them fixated on the prices and also giving them additional discounts on bulk purchase.

Key Rating Weaknesses

Working capital intensive nature of operations

The management has stated their revenues in this segment are realised on an 80-20 basis; wherein 80% of the revenues from a particular contract are realised post-delivery of the machinery to the customer (usually within 1-1.5 months of manufacture) and the balance amount is realised after 1 month of installation of the machinery, the final realisation of the 20% of the contract amount takes about 2-3 months. Under Turnkey Projects, the revenues are realised on a 70-20-10 basis, wherein 70% is realised when the machinery is delivered, 20% is realised post installation & checks and 10% is realised after a final certificate of performance of the machinery is provided usually taking 12-18 months. HECPL largely caters to government entities, this generally leads to delays in payment receipts from them. The trade receivables of the company have increased from Rs. 195.01 crore in FY18 to Rs. 234.31 crore in FY19 (the figure currently stands at Rs. 227.15 crore as on 31st January, 2020). The company has stated that off the receivables outstanding as of January, 2020; Rs. 57.13 crore pertains to receivables that are to be recovered within a 90-day period, the remaining amount which comprises a significant portion of the overall receivables are long term, thereby resulting in lower visibility in the near term. Additionally, the average collection period of the company has increased from 177 days in FY18 to 223 days in FY19, the receivable days are expected to be more or less the same in the future due to the nature of the industry. Although, the company does not have any bad debts.

Raw material price fluctuation risk

The price of steel has seen a lot of volatility over the last three years. The costs of raw materials and finished goods are volatile in nature and hence, profitability of the company is susceptible to fluctuation in the prices of its raw material prices and/or its finished goods. However, company places the major raw material orders at the time of receiving the order itself, which mitigate the price fluctuation risk to some extent. The company has a high amount of receivables and inventory due to the nature of the industry they operate in which has contributed to an increase in the operating cycle.

Concentrated clientele comprising of government entities

More than 75% of the revenues were concentrated from two entities COFMOW (Central Organisation for Modernisation of Workshops) and ICF Chennai amounting to Rs. 264.47 crore in FY19, the order book of the company also majorly consists of entities that are government based, this exposes their revenues streams to high concentration risk.

Project execution risk

The ability of the company to execute orders in a timely fashion as stipulated in their contract with their customers remains of paramount importance as any delays in execution of contracts can lead to the company having to pay liquidated damages to the opposite party. Given the current position of the order book with the unexecuted portion amounting to Rs. 1493.76 crore the ability of the company to execute these contracts without any time or cost overruns in a key rating factor.

Analytical Approach & Applicable Criteria:

Standalone Approach

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

Liquidity is adequate, characterised by gross cash accruals of Rs. 31.55 crore in FY19 and a sizeable cash balance of Rs. 39.95 crores as on March 31, 2019, supported by an above unity current ratio of 2.03x. The average limit utilisation stood at 85.32% for 12-months ended January, 2020.

About the Company

HYT Engineering Corporation, started as a proprietorship organization with Mr. Bhojraj Teli as proprietor, was converted to a Private Limited Company as HYT Engineering Company Private Limited (HECPL) which was incorporated in June 14, 1989. HECPL started its operations at Chinchwad, Pune in 1977 with manufacturing of small drilling machines and lathes. Further, since 2001 the company has ventured in EPCs thereby improving the profitability margins of the company. HECPL manufactures special-purpose lathe machines having its application in the production of railway axels. Further it also undertakes the turnkey projects involving infrastructure and related facilities of coach and shade erections for railways with Indian railways & metros as well international clients. It also provides maintenance services related to the projects. The company has three verticals in which it is engaged in: Manufacturing of machineries that complement and are used in railway workshops, Turnkey Projects mostly mechanical and electrical in which the company supplies machines on the basis of orders taken and Transfer of Technology model in which they undertake ventures with parties (both domestic and international) in manufacturing machines that are either exported or utilised in in-house activities. The company has near-monopoly status in manufacturing of special purpose lathe machines and it caters to the Indian Railways.

Financials:

For the year ended/ As On	**31-03-2018**	**31-03-2019**
	(Audited)	**(Audited)**
Total Operating Income	302.76	351.83
EBITDA	66.50	76.59
PAT	22.30	31.06
Total Debt	130.40	157.91
Tangible Net-worth	86.80	122.86
Ratios		
EBITDA Margin (%)	21.96	21.77
PAT Margin (%)	7.95	9.26
Overall Gearing Ratio (x)	1.50	1.29

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: CARE Ratings has moved the rating of HYT Engineering Company Pvt Ltd into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated March 09, 2020.

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 Facility –Fund Based - Cash Credit	Long Term	140.00	IVR BBB/ Stable Outlook	--	--	--
2.	Long Term Facility – Fund Based – Term Loan	Long Term	66.00	IVR BBB/ Stable Outlook	--	--	--
3.	Long Term / Short Term Facilities – Non Fund Based – Bank Guarantee	Long/ Short Term	303.25	IVR BBB/ Stable Outlook / IVR A3+	--	--	--
4.	Short Term Facilities – Non Fund Based – Letter of Credit	Short Term	30.25	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.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Facility – Fund Based - Cash Credit	NA	NA	Revolving	140.00	IVR BBB / Stable Outlook
Long Term Facility – Fund Based – Term Loan	NA	NA	Upto 2026	66.00	IVR BBB / Stable Outlook
Long Term / Short Term Facilities – Non Fund Based – Bank Guarantee	NA	NA	Upto 36 months	303.25	IVR BBB / Stable Outlook / IVR A3+
Short Term Facilities – Non Fund Based – Letter of Credit	NA	NA	Upto 12 months	30.25	IVR A3+