

**Press Release**

**H and H Precision Private Limited**

**February 14, 2020**

**Ratings**

<b>Sl. No.</b>	<b>Instrument/Facility</b>	<b>Amount (Rs. Crore)</b>	<b>Rating Assigned</b>
1	Long Term Fund Based Facility - Cash Credit	4.00	IVR BBB-/ Stable outlook (IVR Triple B Minus with stable outlook)
2	Long Term Fund Based Facility – Stand by line of credit	1.00	IVR BBB-/ Stable outlook (IVR Triple B Minus with stable outlook)
3	Long Term Fund Based Facility – ODS	0.13	IVR BBB-/ Stable outlook (IVR Triple B Minus with stable outlook)
4	Long Term/ Short Term Non-Fund Based Facility - Bank Guarantee	22.50	IVR BBB-/ Stable outlook (IVR Triple B Minus with stable outlook)/ IVR A3 (IVR A Three)
	<b>Total</b>	<b>27.63</b>	

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The rating derives strength from the Experienced promoters and long track record, Highly diversified and reputed clientele base with high entry barriers, Leveraging on relationships to cut costs and increase profitability, Improving and healthy gearing and debt coverage indicators. However, these strengths are, partially offset by Working Capital Intensive Operations and Modest Scale of Operations.

**Key Rating Sensitivities**

**Upward rating factor(s)** – Significant & sustained improvement in scale of operations while maintaining or improving profitability margins and debt protection parameters on a consolidated basis could lead to a positive rating action

**Downward rating factor(s)** - Any deterioration in the revenue, profitability margins & debt protection metrics on a consolidated basis may lead to a negative rating action.

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

### **Key Rating Strengths**

#### **Experienced promoters and long track record**

The Hyprecision group has a track record of more than three decades in manufacturing and supply of turnkey electro-hydraulic systems. The group is promoted by Mr. Suresh Rajani and Mr. Gaurav Rajani. Mr. Suresh Rajani is a director and qualified as B. Tech Mechanical Engineer and his son Mr. Gaurav Rajani is a director and qualified as M S Computer Science. While Mr. Suresh Rajani's expertise lies in Indigenous designing and development of the project structures, Mr. Gaurav Rajani looks after the operational and technical aspects of the group. They have been associated with the company since its inception and are supported by a group of experienced professionals in managing the day to day operations of the company.

#### **Highly diversified and reputed clientele base with high entry barriers – government and private**

The group has a presence in manufacturing and supply of turnkey electro-hydraulic system for over three decades. The company's top 10 clients account for ~35.78% of the total clientele base of FY19 indicating a diversified clientele base. Moreover, the clients of the group include esteemed government entities such as: The Naval Dockyard Mumbai and Visakhapatnam, Cochin Shipyard Ltd, Kolkata Port Trust and Mazagon Dock Ltd. They also serve to many reputed private limited companies. The ability to maintain the product quality standards as per the requirement of defence sectors & ports acts as an entry barrier in this kind of business.

#### **Leveraging on relationships to cut costs and increase profitability**

The group has long term relationship with the government entities dealing with them, which gradually has won the confidence of the company to make them their sole partner for consultancy based work as well as their major EPC supplier for turnkey projects. This has led to cost cutting as the company is having the expertise on the same. Thus leading to optimisation of resources and adequate cost cutting of manufacturing expenses.

Consequentially, the EBITDA, PBT and PAT Margin boosted up to 23.71%, 21.52% and 19.16% in FY19 from 18.62%, 14.43% and 10.72% in FY18 respectively.

### **Improving and healthy gearing and debt coverage indicators**

The overall gearing and other debt coverage indicators of the group have significantly improved over the last three years. The overall gearing ratio improved from 0.93x as on March 31, 2017 to 0.21x as on March 31, 2019. The long term debt to equity ratio was comfortable at 0.05x as on March 31, 2019. The interest coverage ratio stood at 9.19x in FY19, which has improved from 5.77x in FY18. Total debt to GCA has improved over the last three years and remained comfortable at 0.68x in FY19. Other debt coverage indicators were also comfortable as on March 31, 2019 indicating comfortable debt protection metrics on the consolidated level.

### **Key Weaknesses**

#### **Working Capital Intensive Operations**

The average collection period for FY19 is 101 days and the inventory holding period is 86 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 41 days to pay its suppliers. This partially offsets the late coming payments from customers. The operating cycle of the company on an average is 147 days which is inherent to the business.

#### **Modest Scale of Operations.**

The scale of operation remains modest as revenue remained in the range of Rs. 45 crore to Rs. 50 crore through the years. With a reputed clientele base and addition of new clients revenue is expected to improve in medium term.,

### **Analytical Approach**

For arriving at the rating, Infomerics has combined the business and financial risk profiles of 2 entities, H and H Precision Private Limited and Hyprecision Hydraulik (Proprietorship) moving forward known as Hyprecision group, as they are in the same lines of business, under the same management. Also, by way of a board resolution dated December 4, 2019, it was

resolved that the process for acquiring the business of Hyprecision Hydraulik (Proprietorship) to be started in the next 12 months.

## **Applicable Criteria**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

## **Liquidity: Strong**

The group has been earning a comfortable level of gross cash accruals (GCA) for the last few years and the same is expected to increase further with increase in scale of operation. The overall gearing ratio and interest coverage ratio are comfortable at 0.21x and 9.19x respectively as on account closing day of FY19. The average working capital limit utilisation is ~65.73%. The overall liquidity position of the two entities on a consolidated basis seems to be **Strong**.

## **About the Group**

H and H Precision Private Limited was incorporated in 2011. The company is located at Andheri, Mumbai and its workshop is located at Mahape, Navi Mumbai, H and H Precision Private Limited is involved in design, manufacturing and supply of turnkey electro-hydraulic systems to various customers.

Hyprecision Hydraulik is a Proprietorship incorporated in 1984The firm is engaged in the business of Design, engineering, installation, commissioning, maintenance of hydraulic systems and equipment for the marine sector.

## **Financials (Consolidated)**

**(Rs. crores)**

<b>For the year ended* / As On</b>	<b>31-03-2018 (Audited)</b>	<b>31-03-2019 (Audited)</b>
Total Operating Income	46.82	45.12
EBITDA	8.72	10.70
PAT	5.08	8.77
Total Debt	6.42	6.15
Tangible Networth	19.27	29.17
EBITDA Margin (%)	18.62	23.71
PAT Margin (%)	10.72	19.16
Overall Gearing Ratio (x)	0.33	0.21

\*Classification as per Infomerics Standards

**Standalone financials:**

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	41.29	35.71
EBITDA	7.69	4.86
PAT	4.45	2.45
Total Debt	0.44	9.00
Tangible Networth	8.39	10.82
EBITDA Margin (%)	18.63	13.62
PAT Margin (%)	10.72	6.85
Overall Gearing Ratio (x)	0.05	0.83

\* Classification as per Infomerics Standards

**Status of non-cooperation with previous CRA:** ACUITE Ratings in its press release dated August 14, 2019 has informed that ACUITE has migrated the rating of H and H Precision Private Limited to "Issuer Not Cooperating" category due to unavailability of adequate information.

**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	4.00	IVR BBB- / Stable outlook	--	--	--
2.	Long Term Fund Based Facilities – Stand by Line of Credit	Long Term	1.00	IVR BBB- / Stable outlook	--	--	--
3.	Long Term Fund Based Facilities – ODS	Long Term	0.13	IVR BBB- / Stable outlook	--	--	--
4.	Long Term/Short Term Non-Fund Based Facilities – Bank Guarantee	Long Term/Short Term	22.50	IVR BBB- / Stable outlook/ 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](http://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	4.00	IVR BBB-/ Stable outlook
Stand by Line of Credit	--	--	On Demand	1.00	IVR BBB-/ Stable outlook
ODS			On Demand	0.13	IVR BBB-/ Stable outlook
Bank Guarantee	--	--	Upto 36 months	22.50	IVR BBB-/ Stable outlook/ IVR A3