



Press Release

HYT Engineering Company Pvt Ltd

June 01, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned	Rating Action
1.	Long Term Bank Facility – Fund Based – Cash Credit	140.00	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)	Re-affirmed
2.	Long Term Bank Facility – Fund Based – Term Loan	49.50 (reduced from INR66.00 crore)	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)	Re-affirmed
3.	Short Term Facility – Non Fund Based – Letter of Credit	5.75 (reduced from INR30.25 crore)	IVR A3+ (IVR A Three Plus)	Re-affirmed
4.	Short Term Facility – Non Fund Based – Bank Guarantee	344.25 (enhanced from INR303.25 crore)	IVR A3+ (IVR A Three Plus)	Re-affirmed
	Total	539.50		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating re-affirmation to the bank facilities of the entity derives comfort from the company's steady operations supplemented by growth in revenue, comfortable capital structure and debt protection metrics, strong order-book position providing medium term revenue visibility with proven execution capability, established player with extensive experience of promoter in turnkey projects, customised solutions provider having collaborations with international entities. However, continued pressure on working capital due to long receivable period, project execution risk with instances of liquidated damages, susceptibility of operating margin to volatile input prices are the rating constraints.



Press Release

Key Rating Sensitivities

Upward factors:

- Successful commissioning and completion of project without any time or cost overruns and 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
- Delays in recovery of trade receivables

Key Rating Drivers with detailed description

Key Rating Strengths

Steady operations supplemented by growth in revenues, comfortable capital structure and debt protection metrics

The company has seen their top line grow from INR351.83 crore in FY19 to INR455.33 crore in FY20 consequently the EBITDA in absolute terms has grown from INR76.59 crore in FY19 to INR92.42 crore in FY20 supported by the execution of the existing order book. The company's financial risk profile remains comfortable with a moderate overall gearing ratio of 1.50x in FY20. The interest coverage ratio has also remained moderate at 2.67x in FY20. The company in their provisional figures for FY21 have estimated a topline figure of INR445.63 crore in FY21, which has only declined by 2.13% from the top line figure of FY20.

Strong order book position providing medium term revenue visibility with proven execution capability

The company has an unexecuted order book position of INR1600.00 crore which is 3.51x of the revenues of FY20. Majority of the orders are set to be completed within FY21-22, thereby providing revenue visibility for the next 2 years. 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.



Press Release

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 a track record of undertaking turnkey projects involving infrastructure and related facilities of coach and shade erections for railways with Indian railways, Metros as well international clients. The company has total monopoly 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) in which they have collaborated to build a network of railways in 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.

Key Rating Weaknesses

Continued pressure on working capital due to long receivable period

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 stand at INR203.31 crore at the end of FY20 (off which the



Press Release

company believes a major portion will be recovered within 60 days). The average collection period is 192 days on an average over the past three fiscals, the receivable days are expected to be more or less the same in the future due to the nature of the industry.

Project execution risk with instances of liquidated damages

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. The company has incurred liquidated damages in the past as they have failed to deliver on the timelines which has resulted in the company having to pay for damages amounting to INR5.45 crore in FY18, INR0.51 crore in FY19 which has increased to INR5.25 crore in FY20 which has restricted the profits. In FY20, the management have stated that these damages were incurred due to externalities beyond the control of the company such as during the transportation of the machinery from the place of manufacturing to the place of installation there have been instances wherein there have been delays which are beyond the control of the company, even after delivery of the machinery the company faces many hurdles which come under the purview/authority of the Indian Railways such as site clearances, provision of electricity – in many such cases the delays are due to the railways due to which the due date gets extended. Despite booking an expense of liquidated damages the company has stated that there have been many instances wherein these costs have been recovered in subsequent years and have been added into other income.

Susceptibility of operating margin to volatile input prices

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.

Analytical Approach: Standalone



Press Release

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The current ratio stands at 1.57x in FY20. The company has short term obligations amounting to INR56.39 crore (interest + CPLTD) with gross cash accruals amounting to INR42.02 crore and a healthy cash and bank balance of INR58.89 crore (largely consisting of bank fixed deposits); giving the company adequate balances left post payment of short term obligations. Owing to the healthy profitability and cash accruals, the coverage ratios are expected to be comfortable.

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.



Press Release

Financials (Standalone)*:

(INR crore)

For the year ended/ As On	31-03-2019	31-03-2020	31-03-21
	(Audited)	(Audited)	(Provisional)
Total Operating Income	351.83	455.33	445.63
EBITDA	76.59	92.42	87.23
PAT	31.06	39.67	31.86
Total Debt	157.91	227.71	243.58
Tangible Net-worth	122.86	160.31	203.97
Ratios			
EBITDA Margin (%)	21.77	20.30	19.57
PAT Margin (%)	8.72	8.59	7.15
Overall Gearing Ratio (x)	1.29	1.50	1.19

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (PR dated 01.04.20)	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Long Term Bank Facility – Fund Based – Cash Credit	Long Term	140.00	IVR BBB/ Stable Outlook	IVR BBB/ Stable Outlook	--	--
2.	Long Term Bank Facility – Fund Based – Term Loan	Long Term	49.50 (reduced from INR66.00 crore)	IVR BBB/ Stable Outlook	IVR BBB/ Stable Outlook	--	--
3.	Short Term Facility – Non Fund Based – Letter of Credit	Short Term	5.75 (reduced from INR30.25 crore)	IVR A3+ (IVR A Three Plus)	IVR A3+ (IVR A Three Plus)	--	--
4.	Short Term Facility – Non Fund Based – Bank Guarantee	Short Term	344.25 (enhanced from INR303.25 crore)	IVR A3+ (IVR A Three Plus)	IVR A3+ (IVR A Three Plus)	--	--

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.



Press Release

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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 (INR Crore)	Rating Assigned/ Outlook
Long Term Bank Facility – Fund Based – Cash Credit	NA	NA	Revolving	140.00	IVR BBB/ Stable Outlook
Long Term Bank Facility – Fund Based – Term Loan	NA	NA	Up to 2026	49.50 (reduced from INR66.00 crore)	IVR BBB/ Stable Outlook
Short Term Facility – Non Fund Based – Letter of Credit	NA	NA	Up to 1 year	5.75 (reduced from INR30.25 crore)	IVR A3+ (IVR A Three Plus)
Short Term Facility – Non Fund Based – Bank Guarantee	NA	NA	Up to 1 year	344.25 (enhanced from INR303.25 crore)	IVR A3+ (IVR A Three Plus)



Press Release

Annexure 2: facility wise lender details.

<https://www.infomerics.com/admin/prfiles/Lender-HYT-Engineering-1-jun-21-.pdf>