



Press Release

H and H Precision Private Limited

December 16, 2022

Ratings:

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator (Simple/Complex/Highly complex)
Long Term Bank Facilities	15.50	IVR BBB- /Stable (IVR Triple B Minus with Stable Outlook)	Rating Revised; Removed from Issuer Not Cooperating	Simple
Short Term Bank Facilities	20.00	IVR A3 (IVR A Three)	Rating Revised; Removed from Issuer Not Cooperating	Simple
Total	Rs.35.50 Crore (Rupees Thirty-Five Crore & Fifty Lakhs)			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating upgrade to the bank facilities of H and H Precision Private Limited considers significant growth in the revenue and profitability margins during FY22 as compared with previous financial year. Further ratings continue to derive comfort from experienced promoters and long track record, highly reputed clientele base with high entry barriers – (government and private), leveraging on relationships to cut costs and increase profitability, improving and sturdy gearing and debt coverage indicators. The ratings are however constrained by working capital intensive operations, modest scale of operations with scope of capital expenditure to upscale.



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Key Rating Sensitivities:

Upward Factors

- Ability to scale up operations to above Rs.100 crore with maintaining the PBILDT margins at or above 20%.
- Prudent management of cash conversion cycle and working capital requirements

Downward Factors

- Larger-than-expected debt-funded capex, leading to deterioration in the financial profile, especially liquidity, gearing and debt coverage metrics

List of Key Rating Drivers with Detailed Description

Experienced promoters and long track record

The company has a track record of more than three decades in manufacturing and supply of turnkey electro-hydraulic systems. The company 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 company. 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 reputed clientele base with high entry barriers – government and private

The company has a presence in manufacturing and supply of turnkey electro-hydraulic system for over three decades. Moreover, the clients of the group include esteemed government patrons such as The Naval Dockyard Mumbai and Visakhapatnam, Cochin Shipyard Ltd, Kolkata Port Trust and Mazagon Dock Ship Builders Ltd. They also serve private limited companies like MIL Vehicles & Technologies private limited and Hensoldt Optronics. amongst other reputed companies. The industry has high entry barriers owing to the capital-intensive nature of the industry, reputation attached to the existing players and relationships built over the years with clients who give repeated orders.



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Leveraging on relationships to cut costs and increase profitability

The company 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 they have offloaded the duty of designing the requirements of the navy projects to the company in 9 out of 10 cases. Thus, leading to optimisation of resources and adequate cost cutting of manufacturing expenses. Consequentially, the EBITDA and PAT Margin is boosted up to 18.10% and 13.03% respectively in FY22 (as compared to 10.11% and 4.30% respectively in FY21).

Improving and sturdy gearing and debt coverage indicators

The capital structure and debt coverage indicators of the company remained comfortable during past three years ended as on March 31, 2022, primarily on account of low reliance on external debt coupled with accretion of profits to reserves. However overall gearing has marginally deteriorated and stood at 0.35 times as on March 31, 2022 (vis-à-vis 0.15 times as on March 31, 2021) on account of higher utilization of its working capital limits as on balance sheet date. Further interest coverage ratio has improved and stood at 21.01 times in FY22 (vis-à-vis 5.65 times in FY21) owing to improvement in operating profit. The DSCR continues to remain comfortable as the company does not have any schedule repayment obligations.

Key Rating Weaknesses:

Working Capital Intensive Operations

The operations of the company are working capital intensive in nature with funds being blocked in inventory followed by debtors. The company majorly deals with government-based entities wherein it receives the delayed payment, however collection period has improved and stood at 47 days in FY22 (as against 70 days in FY21) on account of averaging effect however in absolute terms the debtors has increased from Rs.6.21 crore as on March 31, 2021 to Rs.11.59 crore as on March 31, 2022. Further company maintains higher inventory period of around 30-60 days based on the project design and specifications requirement from the client side. On the other hand company receives the credit period of around 30 to 45 days, as result of same the operating cycle stood around -80 days in FY22.



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Modest scale of operations with scope of capital expenditure to upscale

The company has been in operation for around three decades, but its size remains modest. Further the total operating income increased from Rs.43.43 crore to Rs.68.67 crore on account of increase in sale of material and service charges. With a healthy clientele, stable revenue over the medium term can be achieved, however, if the company wants to upscale its business and pitch for bigger contracts, it will need to make sufficient capital expenditure in future.

Analytical Approach: Standalone Approach

Change in the Analytical Approach: Earlier Infomerics Team has considered Consolidated Approach for arriving at the rating, Infomerics has combined the business and financial risk profiles of two 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.

However, the Infomerics Team has now considered the Standalone Approach on account of there being no financial support extended between the group companies. Also, Hyprecision Hydraulik is a proprietorship concern and is engaged into providing consultancy services whereas H and H Precision Private Limited undertakes designing, manufacturing and turnkey contracts.

Accordingly, the team has considered standalone financials of H and H Precision Private Limited for arriving at the rating.

Applicable Criteria:

[Criteria of Rating Outlook | Infomerics Ratings](#)

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)



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Liquidity – Adequate

The company has been earning a comfortable level of gross cash accruals (GCA) for the last few years and currently they have GCA of Rs. 9.39 crore for FY22 as against no repayment obligations for the same period, same is expected to increase further with increase in scale of operation. The overall gearing ratio and interest coverage ratio are comfortable at 0.35x and 14.29x respectively as on account closing day of FY22. The projected DSCR of 16.88x indicates comfortable liquidity position of the companies in meeting its debt obligations. The current and the quick ratio stand comfortably at 1.49x and 0.85x as on closing of FY22 respectively. The average fund based working capital limit utilisation of the company is ~25%. The overall liquidity position of the company seems to be Adequate.

About the Company:

Established as a proprietorship entity in 1982 promoted by Mr. Suresh Rajani (B.E. Mechanical). Company is engaged into the business of design, manufacture, and supply of turnkey electro-hydraulic systems to various customers. Later on, the constitution of the firm has changed to private limited company dated February 09, 2011, and named as “H and H Precision Private Limited”. The company is located at Andheri, Mumbai and its workshop is located at Mahape, Navi Mumbai.

Financials (Standalone):

For the year ended/ As on*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Income	43.43	68.67
EBITDA	4.39	12.43
PAT	1.90	9.09
Total Debt	2.15	8.24
Tangible Net Worth	14.53	23.57
EBITDA margin (%)	10.11	18.10
PAT margin (%)	4.30	13.03
Overall Gearing Ratio (times)	0.15	0.35

* Classification as per Infomerics' standards



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Status of non-cooperation with other CRA: ACUITE Ratings in its press release dated November 05, 2020, has informed that ACUITE has migrated the rating of H and H Precision Private Limited to "Issuer Not Cooperating" category due to unavailability of information.

Any other information: None

Rating History for last three years:

Sr. No	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned on August 24, 2022	Date(s) & Rating(s) assigned on May 27, 2021	Date(s) & Rating(s) assigned in February 14, 2022
1.	Long term Fund Based Bank Facilities – Cash Credit	Long Term	12.50	IVR BBB-/ Stable	IVR BB+/ INC	IVR BBB-/ Stable	IVR BBB-/ Stable
2.	Long term Fund Based Bank Facilities – Stand by line of Credit	Long Term	1.00	IVR BBB-/ Stable	IVR BB+/ INC	IVR BBB-/ Stable	IVR BBB-/ Stable
3.	Long term Fund Based Bank Facilities – Overdraft	Long Term	2.00	IVR BBB-/ Stable	IVR BB+/ INC	IVR BBB-/ Stable	IVR BBB-/ Stable
4.	Short Term Non-Fund Based Facilities – LC/BG	Short Term	20.00	IVR A3	IVR A4+/ INC	IVR A3	IVR A3



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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

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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
Fund Based Bank Facilities – Cash Credit	--	--	--	12.50	IVR BBB-/ Stable
Fund Based Bank Facilities – Stand by line of Credit	--	--	--	1.00	IVR BBB-/ Stable
Fund Based Bank Facilities – Overdraft	--	--	--	2.00	IVR BBB-/ Stable
Non-Fund Based Facilities – LC/BG	--	--	--	20.00	IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-HHPPL-dec22.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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