Press Release

HYT Engineering Company Pvt Ltd

August 30, 2022

Ratings

Sl. No.	Instrument/Facility	Amount (INR Crore)	Ratings	Rating Action	Complexity Indicator
1.	Long Term Bank Facility – Fund Based – Cash Credit	155.00 (enhanced from INR140.00 crore)	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)	Re-affirmed	Simple
2.	Short Term Facility – Non Fund Based – Letter of Credit	30.00 (enhanced from INR5.75 crore)	IVR A3+ (IVR A Three Plus)	Re-affirmed	Simple
3.	Short Term Facility – Non Fund Based – Bank Guarantee	309.25 (reduced from INR344.25 crore)	IVR A3+ (IVR A Three Plus)	Re-affirmed	Simple
	Total	**494.25**			

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 despite challenges due to Covid, 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.

Key Rating Sensitivities

Upward Factors

- Successful commissioning and completion of project without any time or cost overruns leading to liquidated damages.
- Steady improvement in profitability and debt related matrices.

Downward Factors

- Sharp changes in leverage
- Slowdown in order book addition and execution
- Delays on recovery of trade receivables

Key Rating Drivers with detailed description

Key Rating Strengths

Steady operations despite challenges due to Covid, comfortable capital structure and debt protection metrics

The Company's revenues have suffered mildly in FY21 and FY22 witnessing a drop of 3% and 1.8% respectively. The EBITDA margins were however maintained between 19 and 21% in FY21 and FY22 compared to 20% in FY20. The Company's financial risk profile remains comfortable with a moderate overall gearing ratio based on Adjusted Net Worth of 1.24x in FY22. The interest coverage ratio has also remained moderate at 2.21x in FY22.

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

The company has an unexecuted order book position of INR1834.01 crore as of 31.07.2022, which is ~4.2x of the revenues of FY22. 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.

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 catering 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 average collection period of the company has increased from 175 days in FY20 to 191 days in FY21 and 222 days in FY22. The operating cycle has also deteriorated from 156 days in FY20 to 192 days in FY21 and 230 days in FY22. 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 got further increased to INR5.25 crore in FY20. FY21 onwards there has been a drop and the amounts have fallen to INR0.14 crore in FY21 and INR0.42 crore in FY22. The Management has 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

Applicable Criteria

[Rating Methodology for Manufacturing Companies]

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

[Criteria of assigning rating outlook]

Liquidity - Adequate

The current ratio stands at 1.68x in FY22, which is comfortable. This ratio is remaining comfortable between FY23 and FY25. The Company's GCAs during FY22-25 comfortably cover the debt repayments due between FY22 and FY25. The Company's fund based utilisation are moderate at 78% leaving an adequate cushion. The Company has a healthy cash and bank balance of INR94.28 crore (largely consisting of bank fixed deposits). This comfortably covers the cumulative debt repayments between FY23 and FY25. The DSCR of the Company is comfortable between FY23 and FY25.

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 (Standalone)*:

(INR crore)

For the year ended/ As On	31-03-2021	31-03-2022
	(Audited)	(Provisional)
Total Operating Income	438.53	432.96
EBITDA	93.32	82.83
PAT	29.88	24.63
Total Debt	243.96	265.44
Tangible Net-worth	206.99	235.72
Ratios		
EBITDA Margin (%)	21.28	19.13
PAT Margin (%)	6.67	5.60
Overall Gearing Ratio (x)	1.18	1.13

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Crisil has maintained the rating of the company as Issuer Not Cooperating vide its PR dated 21st January 2022.

Any other information: None

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (PR dated 01.06.21)	Date(s) & Rating(s) assigned in 2020-21 (PR dated 01.04.20)	Date(s) & Rating(s) assigned in 2019-20
1.	Long Term Bank Facility – Fund Based – Cash Credit	Long Term	155.00 (enhanced from INR140.00 crore)	IVR BBB/ Stable Outlook	IVR BBB/ Stable Outlook	IVR BBB/ Stable Outlook	--
2.	Short Term Facility – Non Fund Based – Letter of Credit	Short Term	30.00 (enhanced from INR5.75 crore)	IVR A3+ (IVR A Three Plus)	IVR A3+ (IVR A Three Plus)	IVR A3+ (IVR A Three Plus)	--
3.	Short Term Facility – Non Fund Based – Bank Guarantee	Short Term	309.25 (reduced from INR344.25 crore)	IVR A3+ (IVR A Three Plus)	IVR A3+ (IVR A Three Plus)	IVR A3+ (IVR A Three Plus)	--

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About Infomerics Ratings:

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

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	-	155.00 (enhanced from INR140.00 crore)	IVR BBB/ Stable Outlook
Short Term Facility – Non Fund Based – Letter of Credit	NA	NA	-	30.00 (enhanced from INR5.75 crore)	IVR A3+ (IVR A Three Plus)
Short Term Facility – Non Fund Based – Bank Guarantee	NA	NA	-	309.25 (reduced from INR344.25 crore)	IVR A3+ (IVR A Three Plus)

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-HYT-Final-aug22.pdf
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Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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

Note on complexity levels of the rated instruments: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.