

Hitek Engineering Services

April 05, 2022

Ratings

Facilities / Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	10.00	CARE BB-; Stable; ISSUER NOT COOPERATING* (Double B Minus; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	35.00	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Revised from CARE A4+ (A Four Plus) and moved to ISSUER NOT COOPERATING category
Total Facilities	45.00 (Rs. Forty-Five Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. has been seeking information from Hitek Engineering Services (HES) to monitor the rating(s) vide e-mail communications/letters dated February 04, 2022, March 21, 2022 among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. Further, Hitek Engineering Services has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on Hitek Engineering Services' bank facilities will now be denoted as **CARE BB-/CARE A4; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings have been revised account of non-cooperation by HES and CARE's efforts to undertake a review of the ratings outstanding. CARE views information availability risk as a key factor in its assessment of credit risk.

Detailed description of the key rating drivers

At the time of last rating on August 06, 2021, the following were the rating strengths and weaknesses (updated for the information FY21 (A)):

Key Rating Weaknesses

Small scale of operation

Scale of operation marked by total operating income of the firm declined to Rs.28.59 crore in FY21 as compared to Rs. 54.93 crore in FY20 on account of less orders executed by firm due to covid-19 pandemic disruptions. Further firm has achieved sales of Rs. 23.23 crore in 9MFY22 vis-à-vis Rs. 22.05 crore in 9MFY21.

Working capital intensive operation

The overall operations of the firm have been working capital intensive as majority of the funds have been utilized to fund its receivables and inventory. Average debtors cycle elongated to 152 days in FY21 vis-à-vis 85 days in FY20 on account of decline in sales in FY21. However, in actual terms debtors are outstanding of Rs. 11.83 crore as on March 31, 2021 vis-à-vis Rs. 12.25 crore as on March 31, 2020. Further, firm has recovered debtors of Rs. 9 crore out of total debtors outstanding of Rs. 11.83 crore as on March 31, 2021 and debtors of Rs. 10.29 crore are outstanding as on December 31, 2021 on account of slow recovery of debtors from its clients (primarily Government entities) due to manpower shortage in the government organizations (due to Covid-19) to process the bills. The above has impacted the firm's liquidity which is fulfilled by availing of emergency credit line amounting to Rs. 4.54 crore in FY21. Debtors continued to remain high on account of retention money [which is approximately 30% of the total amount of the contract] held by clients which are recoverable after the completion of project. However, for large construction projects the completion period is 4-5 years and retention money is also released after completion of project. Nonetheless, majority of the receivables is held with reputed companies and thus counter-party risk is mitigated to an extent. There have not been any bad debts reported by the firm in the past. Further inventory period also remained high to 284 days in FY21 vis-à-vis 94 days on the back of healthy order book, firm had to keep inventory of raw material readily available for smooth and timely execution of projects. However, company receives a month of credit period from its suppliers however the same is also stretched which led to average creditors' days of 66 days vis-à-vis 35 days in FY20.

¹Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications

*Issuer did not cooperate; Based on best available information

Customer concentration risk

The order book is primarily concentrated towards few clients (Oil and Natural Gas Corporation Limited, Haldia Port and Vishakhapatnam Port Trust) which forms around 83% of its order book. Also, there is no escalation clause in the projects.

Partnership nature of constitution

Being a partnership firm, HES has inherent risk of withdrawal of partners' capital at the time of personal contingency. Furthermore, it has restricted access to external borrowings where net worth as well as creditworthiness of the partners are the key factors affecting credit decision of the lenders. Hence, limited funding avenues along with limited financial flexibility have resulted in limited scale of operations for the firm.

Key Rating Strengths**Long and established track record and the partner's extensive experience in the business:**

The partners of HES namely Mr. Satish Gadre (mechanical engineer from VJTI, Mumbai) & Mr. Dattatraya Bhide (Masters in Technology from IIT, Mumbai) are qualified and have experience of over three decades in the EPC contracts and look after the overall operations of the firm. Partners are assisted by experienced and qualified team to carry out the day to day operations of the firm. Firm is in existence since 1985.

Healthy order book position with reputed clientele:

As on February 28, 2022, the firm has total unexecuted order book position of Rs. 149.18 crore which increased from unexecuted order book position of Rs. 99.24 crore outstanding as on December 30, 2020. The order book is primarily concentrated towards few clients (Oil and Natural Gas Corporation Limited, Haldia Port and Vishakhapatnam Port Trust) which forms around 83% of its order book. Also, there is no escalation clause in the projects.

Healthy profit margins:

PBILDT margin remained healthy in past but further marginally improved to 16.69% in FY21 from 11.65% in FY20 on account of decline in cost of material consumed (13% in FY21 vis-à-vis 42% in FY20). However, owing to increase in depreciation cost and interest expenses with, net profit margin declined to 1.09% in FY21 vis-à-vis 5.39% in FY20.

Comfortable capital structure and moderate debt coverage indicators:

Capital structure continued to remain comfortable in FY21 marked by overall gearing of 0.50x as on March 31, 2021 as against 0.61x as on March 31, 2020 on account of increase in net worth base with accretion of profit and partners infused capital of Rs. 5 crore in FY21, Further debt coverage indicators remained moderate and total debt/GCA has deteriorated to 15.08x in FY21 vis-à-vis 6.66x in FY20 on account of decline in gross cash accruals. Interest coverage also deteriorated to 1.48x in FY21 vis-à-vis 2.39x in FY20 owing to decrease in PBILDT and increase in interest cost in FY21.

Liquidity analysis: Stretched

The liquidity position of the company remained stretched marked by tightly matched cash accruals vis-à-vis repayment obligations and low free cash and bank balance of Rs. 0.16 crore as on March 31, 2021. The industry is inherently having high working capital intensity primarily due to funding requirement towards the security deposits for the non-fund-based facilities, receivables and inventory. However, the same has been funded through internal accruals, working capital bank borrowings, unsecured loans from directors and related parties. Hence, the average utilization of its working capital limits at 105% on an average and maximum utilization remained at 119% in the months of July and August 2021. However, to deal with the weakening liquidity position, firm has availed emergency credit line amounting to Rs. 4.54 crore in FY21.

Analytical approach: Standalone**Applicable Criteria**

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE Ratings Ltd.'s Policy on Default Recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Short Term Instruments](#)

[Construction](#)

[Infrastructure Sector Ratings](#)

About the Company

Established in 1985, Hitek Engineering Services (HES) is engaged in the business of undertaking and executing contracts of design, delivery, fabrication, erection testing and commissioning of fire detection and protection systems. The firm majorly caters to the companies in the power, petrochemical, port industry.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	54.93	28.59	23.23
PBILDT	6.40	4.77	NA
PAT	2.96	0.31	NA
Overall gearing (times)	0.61	0.50	NA
Interest coverage (times)	2.39	1.48	NA

A: Audited, UA: Unaudited, NA: Not available

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.: Not applicable

Disclosure of Interest of Managing Director & CEO: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE BB-; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantee		-	-	-	29.50	CARE A4; ISSUER NOT COOPERATING*
Non-fund-based - ST-Letter of credit		-	-	-	3.50	CARE A4; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantee		-	-	-	1.00	CARE A4; ISSUER NOT COOPERATING*
Non-fund-based - ST-Letter of credit		-	-	-	1.00	CARE A4; ISSUER NOT COOPERATING*

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	10.00	CARE BB-; Stable; ISSUER NOT COOPERATING*	1)CARE BB+; Stable (11-Aug-21)	1)CARE BBB-; Negative (26-Feb-21)	1)CARE BBB-; Stable (05-Mar-20)	1)CARE BB-; Stable (20-Feb-19) 2)CARE BB+; Stable (09-Apr-18)
2	Non-fund-based - ST-Bank Guarantee	ST	29.50	CARE A4; ISSUER NOT COOPERATING*	1)CARE A4+ (11-Aug-21)	1)CARE A3 (26-Feb-21)	1)CARE A3 (05-Mar-20)	1)CARE A3 (20-Feb-19) 2)CARE A4+ (09-Apr-18)
3	Non-fund-based - ST-Letter of credit	ST	3.50	CARE A4; ISSUER NOT COOPERATING*	1)CARE A4+ (11-Aug-21)	1)CARE A3 (26-Feb-21)	1)CARE A3 (05-Mar-20)	1)CARE A3 (20-Feb-19) 2)CARE A4+ (09-Apr-18)
4	Non-fund-based - ST-Bank Guarantee	ST	1.00	CARE A4; ISSUER NOT COOPERATING*	1)CARE A4+ (11-Aug-21)	1)CARE A3 (26-Feb-21)	1)CARE A3 (05-Mar-20)	1)CARE A3 (20-Feb-19)
5	Non-fund-based - ST-Letter of credit	ST	1.00	CARE A4; ISSUER NOT COOPERATING*	1)CARE A4+ (11-Aug-21)	1)CARE A3 (26-Feb-21)	1)CARE A3 (05-Mar-20)	1)CARE A3 (20-Feb-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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