

## Hinduja Tech Limited

October 07, 2022

### Ratings

| Facilities/Instruments                 | Amount (₹ crore)                                  | Rating <sup>1</sup>   | Rating Action |
|--|---|---|---------------|
| Long Term / Short Term Bank Facilities | 35.00   | CARE BBB+; Stable / CARE A2<br>(Triple B Plus; Outlook: Stable/ A Two ) | Reaffirmed    |
| <b>Total Bank Facilities</b>           | <b>35.00</b><br><b>(₹ Thirty-Five Crore Only)</b> |   |               |

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Hinduja Tech Limited (HTL) continue to factor in the company being part of the Hinduja group, demonstrated support extended to HTL by the promoters in the past and experienced management. The rating also takes into account the strong client base comprising leading domestic and global automobile original equipment manufacturers (OEMs) and addition of newer projects in the EV and autonomous vehicle segment. The ratings are constrained by the concentration of revenue in one vertical viz, auto sector which is cyclical in nature, moderate scale and presence in a highly competitive industry.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in the scale of operations with Total Operating Income above Rs.400 crore
- Sustained improvement in PBILDT margins over 10%

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Any increase in leverage levels with overall gearing exceeding 1.0x
- Any sharp change in the credit profile of the parent companies or withdrawal of support being extended

### Detailed description of the key rating drivers

#### Key Rating Strengths:

**Part of the Hinduja group and demonstrated financial support extended by the promoters:** HTL is a part of the Hinduja group with the group's flagship company being Ashok Leyland Ltd (rated 'CARE AA; Negative/CARE A1+'). The group has presence in various industries, including Automotive, Banking & Finance, IT/ ITES and Energy & Chemicals among others. The Hinduja group has demonstrated financial support in the past with periodic infusion of equity capital apart from the loans and advances. Apart from the equity, ALL has extended non-cumulative non-convertible redeemable preference shares with outstanding balance of Rs. 23.90 crore as on March 31, 2022.

**Experienced and qualified board of directors and management:** HTL's Board of Directors consists of representatives from the Hinduja group. Mr Dheeraj G Hinduja represents the promoter group family. Other directors include Mr Gopal Mahadevan (CFO of ALL) and Mr Mohan Rangan (part of the board of other Hinduja group companies). The key strategic decisions are taken up by the board, whereas the day-to-day operational and functional aspects are taken care of by a professional set-up led by the CEO and a well-organized structure consisting of skilled personnel at various levels. Mr Kumar Prabhas, CEO, is an IT industry veteran with over 25 years' of experience.

**Focused presence in the engineering solutions business:** HTL has a focused presence in providing engineering solutions particularly for the automobile sector through its Product Engineering Solutions (PES vertical). HTL's core competence and service offerings encompass complete new product development including Concept Design, Styling, Vehicle packaging and Integration, Design and Engineering, etc. HTL has added some reputed clients over the years and has been getting repeat business with many of these clients as the product development lifecycle for any new product launch takes about two years. With auto industry impacted by high end innovations like driverless technology, EV adoption, fuel efficiency etc., PES segment has higher growth and is taking up projects with newer and disruptive technologies in the PES segment. The Digital Technology Solutions vertical offers consulting, deployment, support services in ERP, SCM and services in new gen technologies such as Enterprise Mobility, Cloud, Social Media and Collaborative Technologies.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Recovery in TOI and margins in FY22 after the COVID impact in FY21:** The TOI of the company which fell by 17% in FY21 (refers to the period April 1 to March 31) due to the sustained slowdown in auto sector, has recovered in FY22 with TOI growth of 35% over FY21 and has posted a CAGR of 13% over last four years.

HTL mainly takes up two types of projects viz. time and material projects and fixed bid projects. Over the years, the company has been making efforts in reducing under-utilization of resources and obtaining higher margin projects in fixed bid contracts. Presence of time and material contracts help the company have a better visibility of revenue while the fixed bid contracts provide better utilization and margins for the company. Going forward, maintaining a good mix of both contracts, and improving margins would be key for the prospects of the company.

**Efforts to increase projects in EV and other disruptive technologies:** HTL has tweaked its business strategy and has been focusing more on emerging and disruptive technology. During FY21 and FY22, the company has roped in some projects and is expanding more in the autonomous and EV segment including hyper car, electric buses etc. While earlier the company depended on the group for majority of its revenue, in the recent years with addition of newer clients, the revenue from ALL has come down from 23% in FY19 to 15% in FY21 and 11% in FY22.

#### **Key Rating Weaknesses:**

**Concentration risk in terms of industry and clients:** The company has significant exposure to automotive industry – almost 90% over the past few years. Therefore, the revenue of the company is tied to the prospects of the industry which is inherently cyclical. Any slowdown in the auto segment or decrease in technology spend by its top clients can have an adverse impact on the company's performance. The impact of the same is seen in FY21 with revenue and margins of the company slowing down due to the slowdown in the automobile industry.

The concentration with top five clients remain at 35% in FY22 and 40% in 5MFY23 representing a marginal decline from 41% in FY21. However, the relationship shared with the customers in terms of customised product development and the continued technology support required for future product development, ensures renewal of contracts with these industry majors.

**Relatively moderate sized player in a competitive market:** HTL operates in an intensely competitive scenario with a moderate scale of Rs. 200-300 crore. Large Indian IT players like have significant presence with a larger client base and may pose hindrance for HTL to acquire larger deals especially in DTS segment. Key challenges in the industry include the availability and retention of a skilled workforce which has recently seen a high attrition. Additionally, wage inflation and forex fluctuations continue to remain a challenge in the future.

#### **Industry Prospects:**

The automotive software and engineering services market is tied to the automotive market. The automotive industry is cyclical in nature as it derives its demand from the investments and spending by the Government and individuals. After witnessing a degrowth in FY20 and further intensification of slowdown due to COVID in H1FY21, resumption of regular economic activities, demand started to improve since October 2020. This decade represents one of the most significant tech disruptions in the automotive industry through technologies such as Automated, Connected, Electric and Shared (ACES), and Software Defined Verticles (SDVs). Overall, the vehicle software market is expected to nearly double by 2030, fuelled by the digital push among top OEMs and a dramatic increase in their investments. These factors provide healthy revenue visibility for players in automotive software and engineering over the near to medium term. HTL is having a presence in these newer technologies and that augurs well for the company. Addition of new clients on continuous basis, expanding in the disruptive technology business and the ability of the company to win higher margin fixed bid and product development projects would remain key to the company's prospects ensuring sustainable growth and profitability.

#### **Liquidity: Adequate**

The company had cash accruals of Rs. 32 crore in FY22 and adequate cash and bank balances of Rs. 33.56 crore as on March 31, 2022 as against nil repayment obligations. HTL gives credit period of 45 - 60 days to its customers after the billing. In case of large orders, HTL also receives advance payments. The company avails credit period of around 15-20 days from its vendors.

#### **Analytical approach:**

Consolidated as HTL and the four subsidiaries, viz., Hinduja Tech Inc, USA and Hinduja Tech GmbH, Germany, Hinduja Tech (Shanghai) Co. Ltd, China and Hinduja Tech Canada Inc, Canada are in the same line of business and under the same management. The German subsidiary, Hinduja Tech GmbH mainly serves as a marketing arm of the company while the US subsidiary Hinduja Tech Inc is used to execute projects for certain clients who require projects to be executed onsite. The other two subsidiaries have just been incorporated in FY22 and currently remain dormant.

## Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Service Sector Companies](#)

## About the company

Hinduja Tech Limited (HTL), an Information Technology-based engineering solutions company, provides Integrated Engineering, Manufacturing and Enterprise Solutions focused predominantly towards Automotive, Aerospace and general manufacturing customers across the globe. HTL has two delivery centers in Chennai and Pune in India. HTL has four wholly-owned subsidiaries (WOS), namely, Hinduja Tech GmbH in Germany, Hinduja Tech Inc. in USA Hinduja Tech (Shanghai) Co. Ltd, China and Hinduja Tech Canada Inc, Canada and branches at UK, France and Japan.

| Brief Financials (₹ crore)   | March 31, 2021 (A) | March 31, 2022 (A) | July 30, 2022;<br>4MFY23 (Prov.) |
|------------------------------|--------------------|--------------------|----------------------------------|
| Total Operating Income       | 188.98             | 256.52             | 98.10                            |
| PBILDT                       | 11.17              | 29.64              | 10.10                            |
| PAT (after deferred tax)     | 2.66               | 28.22              | 7.60                             |
| Overall gearing ratio(times) | 0.88               | 0.45               |                                  |
| Interest coverage(times)     | 4.87               | 14.43              |                                  |

A: Audited; Prov.: Provisional

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** 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 (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|--|------|-------------------------------|-----------------|----------------------------|-----------------------------|---|
| Fund-based - LT/ ST-Working Capital Limits |      | -                             | -               | -                          | 21.00                       | CARE BBB+; Stable / CARE A2               |
| Non-fund-based - LT/ ST-BG/LC              |      | -                             | -               | -                          | 14.00                       | CARE BBB+; Stable / CARE A2               |

**Annexure-2: Rating history for the last three years**

| Sr. No. | Name of the Instrument/Bank Facilities    | Current Ratings |                              |                             | Rating History                              |   |   |   |
|---------|---|-----------------|------------------------------|-----------------------------|---|---|---|---|
|         |   | Type            | Amount Outstanding (₹ crore) | Rating                      | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1       | Fund-based - LT/ST-Working Capital Limits | LT/ST*          | 21.00                        | CARE BBB+; Stable / CARE A2 | -   | 1)CARE BBB+; Stable / CARE A2 (29-Oct-21)   | 1)CARE BBB+; Stable / CARE A2 (20-Oct-20)   | 1)CARE BBB+; Stable / CARE A2 (09-Oct-19)   |
| 2       | Non-fund-based - LT/ ST-BG/LC             | LT/ST*          | 14.00                        | CARE BBB+; Stable / CARE A2 | -   | 1)CARE BBB+; Stable / CARE A2 (29-Oct-21)   | 1)CARE BBB+; Stable / CARE A2 (20-Oct-20)   | 1)CARE BBB+; Stable / CARE A2 (09-Oct-19)   |

\*Long term/Short term.

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

| Sr. No. | Name of Instrument                         | Complexity Level |
|---------|--|------------------|
| 1       | Fund-based - LT/ ST-Working Capital Limits | Simple           |
| 2       | Non-fund-based - LT/ ST-BG/LC              | Simple           |

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings 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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