Hitech Hydraulics

March 16, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	10.96	CARE BB; Stable; ISSUER NOT COOPERATING* (Double B; Outlook: Stable ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	12.00	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Total Bank Facilities	**22.96 (Rs. Twenty-Two Crore and Ninety-Six Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings has been seeking information from Hitech Hydraulics (HH) to monitor the ratings vide e-mail communications dated February 28, 2022, February 22, 2022, February 04, 2022 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 has reviewed the rating on the basis of the best available information which however, in CARE Rating's opinion is not sufficient to arrive at a fair rating. The rating on Hitech Hydraulics bank facilities will now be denoted as **CARE BB; Stable ISSUER NOT COOPERATING/ 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 reaffirmation of the ratings assigned to the bank facilities of Hitech Hydraulics remain constrained by small scale of operation, working capital intensive nature of operations, short term revenue visibility from order book and constitution of the entity as partnership firm with inherent risk of withdrawal of capital. However, the rating derives strength from long track record with experienced partners for more than three decades in manufacturing of heavy engineering goods, growth in total operating income during review period, satisfactory profitability margins albeit declined during the review period, satisfactory capital structure and debt coverage indicators, reputed client base and favourable industry prospects and support from Government of India.

Key Rating Weaknesses

Small scale of operations with low net worth base

Despite long track record, the scale of operations of the firm remained small marked by total operating income (TOI) of Rs. 31.08 crore in FY21 (Prov.) with low net worth base of Rs. 5.76 crore as on March 31,2021(Prov.) as compared to other peers in the industry.

Short term revenue visibility from its current order book position

HH has an order book position of Rs. 48.85 crore as on May 11, 2021 (Last review: Rs.59.45 crore), which translates to 1.57x of total operating income of FY21 (Prov.) providing medium term revenue visibility. The said order book is related to supply of hydraulic cylinders, other pneumatic systems and AMC services. The firm is likely to complete the current order book by FY22.

Working capital intensive nature of operations

The firm operates in working capital intensive nature of business, however, the operating cycle of the firm has improved and remained at 83 days in FY21 (Prov.). HH generally executes orders for Government Organizations due to which the working capital cycle is elongated on account of high collection period and inventory period. Once the final sample product is approved, the execution of the order takes place at faster pace and at the end, the product has to undergo many testing process which elongates the inventory as well as collection period days. Generally, the firm receives amount from customers within 45-60 days from the date of bill raised and makes to payment to suppliers within period of 30-60 days. However, the collection period improved and stood at 70 days in FY21(Prov.) on account of timely receipt of payments from clients and the inventory period of the firm Improved and stood at 79 days in FY21 (Prov.). The average creditor days of firm has decreased and stood 65 days in FY21(Prov). To meet the above working capital gap, the firm is dependent on working capital bank borrowings, the average utilization of working capital limit for the last 12 months ended i.e., April 30, 2021 remained at 95%

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

Impact of COVID-19
Due to the lockdown on account of COVID-19, the operations of HH were impacted due to migration of labour resulted in shut down of all major operations for the period of 8 days in March20. However, HH resumed the operation from May 1st week of in 2020 and gradually improved the labour strength and also executed operations during Q1FY21. The firm has availed interest deferment on Cash Credit and moratorium on term loan from March 2020 to August 2020. As confirmed by the banker, they are converted the accumulated interest for the deferment period up to 31.08.2020 into FITL and same has been repaid, the firm has booked revenue of ~Rs.8.00 crore upto May 11,2021 and expecting TOI of Rs. ~50.00 crore for FY22

Constitution of the entity as partnership firm with inherent risk of withdrawal of capital
The firm being a partnership firm is exposed to inherent risk of capital withdrawal by the partners, due to its nature of constitution. Further, any substantial withdrawals from capital account would impact the net worth and thereby the financial profile of the firm. Due to retirement of one of the partner there was a withdrawal of capital to the extent of Rs. 1.87 crore as on March 31, 2021 (Prov.)

Key Rating Strengths
Long track record with experienced partners for more than three decades in manufacturing of heavy engineering goods
HH was established in the year 1997, hence, it has long track record. The partners of the firm have more than three decades of experience in manufacturing of heavy engineering goods. Mr. Srinivasa Rao, aged 57, is the Managing Partner of the firm and looks after day to day activities of the firm. He has experience of more than three decades in heavy engineering sector. Prior to HH, he worked with Defence Research and Development Organization (DRDO), as Junior Scientific Officer (JSO) in department of controls. The partners of the firm have established good relationship with customers and suppliers due to long track record and presence in the business for a long period of time.

Growth in total operating income during review period
The total operating income (TOI) of the firm grew at a CAGR (Compounded Annual Growth Rate) of 12% i.e., increased to Rs.31.08 crore in FY21 (Prov.) as compared to Rs.24.78 crore in FY19 due to increase in number of orders executed coupled with increase in AMC contracts during the review period. Annual Maintenance Service Contracts (AMC) revenue that has fetched nearly 54% of the total operating income during FY21 (Prov.)

Satisfactory profitability margins albeit declined during the review period
The profitability margin of the remained satisfactory during the review period. However, the PBILDT margins of the firm has declined from 19.33% in FY19 to 14.72% in FY21 (Prov.) due to increase in total cost on account of increase in material cost and employee expenses during the review period. Due to aforementioned reason, the PAT margin also declined from 5.26% in FY19 to 4.64% in FY21 (Prov.).

Satisfactory capital structure and debt coverage indicators
The capital structure of the firm has remained satisfactory marked by debt equity ratio continues to remain at below unity during review period and the overall gearing ratio of the firm marginally deteriorated from 1.75x as on March 31,2019 to 1.88x as on March 31, 2021(Prov.) due to increase in total debt on account of higher amount of working capital borrowings as on closing balance sheet date ended March 31, 2021 (Prov).,coupled with decrease in tangible net worth due to retirement of one of the partner.
The Total debt/GCA has deteriorated from 3.93x in FY19 to 5.04x in FY21(Prov.) due to decrease in gross cash accruals coupled with increase in debt levels. The interest coverage ratio of the firm has remained comfortable during the review period. However, interest coverage has fluctuated between 3.30x-2.95x during FY19 to FY21 (Prov.) due to fluctuation of PBILDT in absolute terms.
Total debt/ CFO of the firm has significantly deteriorated and stood at 15.32x in FY21(Prov.) due to decrease in cash flow from operation on account of increase in working capital changes by way of high inventory levels. However, in FY20 the total debt/CFO remained comfortable at 1.44x at back of decrease in working capital changes by way low inventory levels.

Reputed client base
Over the years, the firm has established good relationship with its clientele from whom, the firm garners repeat orders. However, there is client concentration risk as ~68% of the current order book pertains to two clients i.e., Defence Research and Development Laboratory and Advance System Laboratory.

Favorable industry prospects and support from Government of India
To encourage more participation from start-ups and micro, small & medium enterprises (MSMEs) in Defence Research & Development (R&D) in achieving the 'Atmanirbhar Bharat' goal, the Defence Minister Mr. Rajnath Singh released a new version of 'Defence Research and Development Organisation (DRDO) Procurement Manual 2020' on October 20, 2020. There are plans to establish new infrastructure including a defence park in Kerala to manufacture defence equipment for the armed forces. The project is aimed at promoting MSMEs and boosting the 'Make in India' initiative. In November 2020, the Department of Defence, in partnership with the DGDE and Armed Forces, established a land management system (LMS) as part of efforts to enhance the overall defence land management. In February 2021, Defence Research and Development Organisation (DRDO) handed over Licensing Agreements for ToT (LAToT) for 14 DRDO developed technologies to 20 industries at Aero India 2021 in Bengaluru

Liquidity - Adequate
The liquidity profile of the firm stood adequate marked by sufficient cushion in accruals vis a vis repayment obligations and cash balance of Rs. 0.62 crore as on March 31, 2021(Prov.). Current ratio of the firm stood at 1.23x as on March 31, 2021(Prov.). The average utilization of Cash Credit facility was 95% for the last 12 months ended April 30, 2021. However, the The firm has availed interest deferment on Cash Credit and moratorium on term loan from March 2020 to August 2020. As confirmed by the banker, they are converted the accumulated interest for the deferment period up to 31.08.2020 into FITL and same has been repaid

Analytical approach: Standalone.

Applicable criteria
Policy in respect of Non-cooperation by issuer
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Rating Methodology – Manufacturing Companies

About the firm
Hyderabad based, Hitech Hydraulics (HH), was incorporated in the year 1997 as a partnership firm by Mr. Srinivas Rao (Managing Partner) and Mr. Anne Madhavi Latha (Partner). The firm is primarily engaged in manufacturing of custom built Hydraulic and Pneumatic systems & allied products for aerospace and defence sector. Apart from manufacturing, the firm also has inspection tools for quality check of the manufactured products according to the quality requirements of the client. The firm also undertakes Annual Maintenance Service Contracts (AMC) for periodical check-up of Hydraulic equipment. The firm is an ISO 9001:2000 certified and accredited by United Kingdom Accreditation Service (UKAS), American National Standards Institute (ANSI-RAB). The firm has its manufactured unit located in Kukatpally, Hyderabad, Telangana covering the area of 1150 Sq.Yards.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (P)	9MFY2022
Total operating income	30.11	31.08	NA
PBILDT	5.11	4.58	NA
PAT	1.33	1.44	NA
Overall gearing (times)	1.46	1.88	NA
Interest coverage (times)	3.30	2.95	NA

A:Audited, P:Provisional, NA; Not Available

Status of non-cooperation with previous CRA: ICRA has conducted the review on the basis of the best available information and has classified Hitech Hydraulics as "Issuer Not cooperating" vide its press release dated January 10, 2022.

Any other information: 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		-	-	-	8.00	CARE BB; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantee		-	-	-	12.00	CARE A4; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	November-2023	1.09	CARE BB; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Working capital Term Loan		-	-	August-2024	1.87	CARE BB; Stable; 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-Term Loan	LT	-	-	-	-	1)Withdrawn (31-Oct-19)	1)CARE BB; Stable (26-Sep-18)
2	Fund-based - LT-Cash Credit	LT	8.00	CARE BB; Stable; ISSUER NOT COOPERATING*	1)CARE BB; Stable (24-May-21)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (22-Jan-21)	1)CARE BB; Stable (31-Oct-19)	1)CARE BB; Stable (26-Sep-18)
3	Non-fund-based - ST-Bank Guarantee	ST	12.00	CARE A4; ISSUER NOT COOPERATING*	1)CARE A4 (24-May-21)	1)CARE A4; ISSUER NOT COOPERATING* (22-Jan-21)	1)CARE A4 (31-Oct-19)	1)CARE A4 (26-Sep-18)
4	Fund-based - LT-Term Loan	LT	1.09	CARE BB; Stable; ISSUER NOT COOPERATING*	1)CARE BB; Stable (24-May-21)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (22-Jan-21)	1)CARE BB; Stable (31-Oct-19)	-
5	Fund-based - LT-Working capital Term Loan	LT	1.87	CARE BB; Stable; ISSUER NOT COOPERATING*	1)CARE BB; Stable (24-May-21)	-	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / 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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working capital Term Loan	Simple
4	Non-fund-based - ST-Bank Guarantee	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 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.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Prasanna Krishnan
Contact no.: 040-67937421
Email ID: prasanna.krishnan@careedge.in

Relationship Contact
Name: Ramesh Bob Asineparthi
Contact no.: +91 90520 00521
Email ID: ramesh.bob@careedge.in

About CARE Ratings Limited:
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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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