HI-Tech Systems & Services Limited

August 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	79.37 (Reduced from 102.75)	CARE A-; Stable	Reaffirmed
Long Term / Short-term bank facilities	44.70	CARE A-; Stable / CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Hi-Tech Systems and Services Limited (HTSSL) factors in the company's improvement in financial risk profile marked by increase in the scale of operations and operating margins and diversification witnessed in the order book in FY24 (refers to April 01 to March 31). Ratings continue to derive comfort from experienced promoters, diversified revenue streams, long-term power purchase agreements (PPAs) from the wind segment, association with global technology providers for trading power equipment, comfortable capital structure and satisfactory debt coverage indicators. However, ratings tempered by moderate scale of operations despite improvement in FY24 and working capital intensive business, counterparty credit risk and inherent climatic risks in wind generation segment.

CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to one of the long-term bank facilities (term loan) of SGCCL with immediate effect. This action has been taken at the company's request and 'No Dues Certificates (NDC)' received from bank that extended the facility rated by CARE Ratings.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increasing scale of operations marked by total operating income (TOI) over ₹500 crore on a sustained basis.

Negative factors

- Significantly reducing liquidity below ₹20 crore.
- Substantially elongating collection period leading to stretch in liquidity position on a sustained basis.
- Debt funded capex or investment in group companies leading to significantly deteriorating capital structure and total debt to gross cash accruals (TD/GCA) above 3x.

Analytical approach: Consolidation.

CARE Ratings has adopted the consolidated approach on account of the common management, similar line of business and operational linkages of HTSSL with its subsidiaries. The list of entities whose financials have been considered in HTSSL's consolidated financials is mentioned in Annexure – 6.

Outlook: Stable

CARE Ratings believes that the group will continue to benefit from extensive experience of promoters and likely sustain the increased scale of operation, supported by healthy order book position, while maintaining healthy operating margin and comfortable capital structure.

Detailed description of key rating drivers:

Key strengths

Experience of promoters

Promoters, Dharam Chand Agarwal and Vikash Agarwal (son of D. C. Agarwal) have been associated with HTSSL since inception. D C Agarwal has five decades of experience in the industry with around three decades in HTSSL. V Agarwal, a Chartered Accountant, has around three decades of experience in market research, business development and management, strategic planning, project initiation and implementation.

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

Diversified revenue streams
HTSSL's operations are spread across four business segments, marketing and sales of imported products which are used in power industry, wind power generation, leasing of power equipment and manufacturing products for boiler applications and engineering services. On standalone basis, revenue from manufacturing, trading, windmills, leasing, engineering contributed ~₹82 crore, ₹92 crore, ₹24 crore, ₹5 crore and ₹12 crore, respectively.

The diversified revenue profile includes revenue from manufacturing, trading and engineering services of power equipment and leasing business provides steady cashflows. The company has been acquiring entities to bolster its presence in the manufacturing segment including equipment used in various industries like power, sugar and crude oil refinery among others.

Improvement in financial risk profile of the group FY24
The group's financial performance improved in FY24 over FY23 marked increase in TOI by 21% to ₹290 crore from ₹239 crore in FY23 attributable to better demand scenario in the domestic market from its reputed clientele base. Revenue from HTSSL's manufacturing segment (on standalone) increased by 53% in FY24 over FY23 to ₹82 crore. Furthermore, revenue of Electro Zavod India Private Limited (EZIPL; subsidiary) also increased by 38% in FY24 to ₹50 crore. Increase in scale of operation, improvement in plant load factor (PLF) of windmills and higher revenue share of the manufacturing segment resulted improvement in operating margins by 192 bps to 22.31% in FY24. Accordingly, profit before interest, lease rentals, depreciation, and taxation (PBILDT) and profit after taxation (PAT) increased and stood at ~₹65 crore and ₹44 crore in FY24, respectively. The group's gross cash accrual (GCA) also increased by 56% over last fiscal year and stood at ~₹56 crore in FY24 (PY: ₹56 crore) as against repayment obligations of ~₹16 crore in FY24.

On standalone basis, HTSSL's TOI and PBILDT stood at ~₹215 crore and ₹55 crore in FY24, respectively.

Comfortable capital structure and satisfactory debt coverage indicators
Overall gearing improved and remained comfortable at 0.24x as on March 31, 2024, against 0.33x as on March 31, 2023. Improvement was attributable to increase in networth base, considering accretion of profits to reserves and gradual repayment of term debts. TD/GCA remained healthy and stable at 1.31x in FY24, against 2.31x in FY23. Interest coverage continued to remain comfortable at 11.53x in FY24 as against 6.55x in FY23.

Long-term PPAs for supply of energy in place for windmills
HTSSL is currently operating windmills at Andhra Pradesh and Rajasthan with an aggregate installed capacity of 23.1 MW. It has active off-take agreement for all its windmill units at rates greater than ₹4.70/unit and first PPA expiring in 2039.

Association with reputed global technology providers
HTSSL has associations with reputed global technology providers for product groups under trading division (thermal imaging camera, air filtration products, and suspended powered access systems among others). HTSSL represents these companies in India and is the sole supplier of their equipment in the country and has long-term association with most of the companies. Furthermore, as the traded equipment is sourced on an order backed model, the risk of adverse movement in prices is reduced. The company also provides engineering services on these products to its clients which amounted to ~₹12.0 crore in FY24.

Key weaknesses

Moderate scale of operations despite improvement in FY24
Although TOI has been increasing in the last two to three fiscal years, it continues to be moderate with TOI of ₹215 crore in FY24 on standalone basis and ₹290 crore in FY24 on a consolidated basis.

Counterparty credit risk associated with the wind energy business
HTSSL has wind energy PPAs with counter parties having relatively weaker credit profile. However, it has been receiving timely payments from Rajasthan DISCOMS. HTSSL's long over dues were from Tamil Nadu Generation and Distribution Company Limited (TANGEDCO) and Andhra Pradesh Southern Power Distribution Company Limited (APSPDCL). The company has substantial portion of its wind energy capacity tied up in PPA with APSPDCL where there had been tariff-related dispute, and the matter was sub-judice. Nonetheless, post favourable judgement in the favour, the company has already received dues in monthly instalment.
The company has no significant operating expenses for its windmills and has liquidity in the form of unutilised working capital limits and cash flows from its other businesses to fall upon to meet debt repayment obligations for windmills.

Risks associated with variation in wind flow

Wind energy business which constituted 11% of HTSSL's standalone revenue in FY24 has the risk of climatic conditions. HTSSL's wind power operations depend on availability of strong winds. A significant proportion of wind energy generation (~75%) takes place between May and October. In the off-season stretching from November to April, wind generation dips significantly contributing to remaining 25% of wind generation.

Working capital intensive operations

The group's operations are working capital intensive due to higher credit period extended out to customers as major counterparts being state electricity boards, DISCOMs and power plant operators. Elongated collection period in windmill segment, in projects undertaken by SEBs and private players in spower sector, led to elongated debtors collection period. Furthermore, need based customisation led to a sizable inventory of raw materials and finished products. Nonetheless, clearing of past dues, by APSDCL, led to an improvement in the working capital cycle to a large extent. Accordingly, debtors' collection period improved to 107 days in FY24 from 134 days in FY23. Nevertheless, operations are expected to remain working capital intensive in short to medium term as share of manufacturing segment in total revenue is expected to increase, where high inventory is required, going forward.

Liquidity: Adequate

The group has adequate liquidity position marked by sufficient cushion in accruals of ₹56 crore against repayment obligations of ₹16 crore in FY24; supported by current ratio of 2.52x as on March 31, 2024. The company had unutilised cash credit limits of ₹48 crore of sanctioned limits of ₹66 crore as on May 31, 2024, which is sufficient to meet the incremental working capital requirement in ensuing years.

Going forward, the group's liquidity profile is projected to remain adequate as debt repayment obligations of ~₹12 crore are expected to be met fully through projected GCA in FY25.

Environment, social, and governance (ESG) risks- Not applicable

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Nonfinancial Sector
Withdrawal Policy
Service Sector Companies
Short Term Instruments
Wind Power Projects

About the group and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Diversified	Diversified	Diversified	Diversified

HTSSL was promoted by Kolkata-based Dharam Chand Agarwal and his son, Vikash Agarwal, in 1989 to provide specialised products and services in the power industry. It diversified in equipment leasing business in 1992 and wind power generation in 2006. HTSSL ventured in manufacturing level instruments and boiler components for power generating companies in 2008 by setting up its manufacturing unit at Behala in West Bengal. In 2021, it set up another factory in Narendrapur, Kolkata. Presently, HTSSL's activities can be grouped into four divisions, (1) trading of equipment relating to power and process industries, (2) manufacturing and engineering equipment for power and process industries, (3) leasing of portable gen-sets, meters, and power transformers among others and (4) wind power generation (total capacity 23.1 MW) in Andhra Pradesh and Rajasthan.
In FY23, HTSSL acquired Electro Zavod India Privat Limited (EZIPL) and AKS Power Equipments Private Limited (AKS) to bolster its presence in the manufacturing sector. Now, the company has three subsidiaries, Electro Zavod India Private Limited (EZIPL) and AKS Power Equipments Private Limited (AKS) and Buka Power Plant Consultants Private Limited (BPPCPL) and one step down subsidiary namely Mechanical Machine Makers Private Limited (MMMPL) which is the subsidiary of EZIPL.

Consolidated/Combined financials

Brief Financials (₹ crore)	March 31, 2023 (A)*	March 31, 2024 (P)^
Total operating income	239.62	290.17
PBILDT	46.77	64.74
PAT	18.69	43.64
Overall gearing (times)	0.34	0.24
Interest coverage (times)	6.14	11.53

A: Audited; P: Provisional; Note: 'The above financials are the latest available'; *Consolidated
^FY24 financials include combined financials of HTSSL, BPPCPL, EZIPL, MMMPL and AKS as the consolidated results are not available.

Standalone financials of HTSSL

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	183.02	215.12
PBILDT	44.98	55.10
PAT	16.47	34.47
Overall gearing (times)	0.32	0.19
Interest coverage (times)	5.49	11.00

A: Audited; P: Provisional; Note: 'The above financials are the latest available'.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

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

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

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-Cash Credit	-	-	-	-	51.00	CARE A-; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	0.20	CARE A-; Stable / CARE A2+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	44.50	CARE A-; Stable / CARE A2+
Term Loan-Long Term	-	-	-	December 2026	28.37	CARE A-; Stable

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based/Non-fund-based-LT/ST	LT/ST	0.20	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (07-Jul-23)	1)CARE A-; Stable / CARE A2+ (30-Aug-22)	1)CARE A-; Stable / CARE A2+ (05-Aug-21)
2	Fund-based - LT-Cash Credit	LT	51.00	CARE A-; Stable	-	1)CARE A-; Stable (07-Jul-23)	1)CARE A-; Stable (30-Aug-22)	1)CARE A-; Stable (05-Aug-21)
3	Term Loan-Long Term	LT	28.37	CARE A-; Stable	-	1)CARE A-; Stable (07-Jul-23)	1)CARE A-; Stable (30-Aug-22)	1)CARE A-; Stable (05-Aug-21)
4	Non-fund-based - LT/ ST-BG/LC	LT/ST	44.50	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (07-Jul-23)	1)CARE A-; Stable / CARE A2+ (30-Aug-22)	1)CARE A-; Stable / CARE A2+ (05-Aug-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instrument / facilities- Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Electro Zavod India Private Limited	Full	Common management, similar line of business and operational linkages of HTSSL with its subsidiaries.
2	AKS Power Equipments Private Limited	Full	
3	Buka Power Plant Consultants Private Limited	Full	
4	Mechanical Machine Makers Private Limited	Full	

Note on complexity levels of the rated instrument: 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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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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