# Hitech Hydraulics

January 22, 2021

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Ratings | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 7.82 | CARE B+; Stable; ISSUER NOT COOPERATING* (Single B Plus; Outlook: Stable ISSUER NOT COOPERATING*) | Revised from CARE BB; Stable (Double B; Outlook: Stable) and moved to ISSUER NOT COOPERATING category |
| Short Term Bank Facilities | 8.50 | CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*) | Rating moved to ISSUER NOT COOPERATING category |
| **Total Bank Facilities** | **16.32 (Rs. Sixteen Crore and Thirty-Two Lakhs Only)** | | |

*Details of instruments/facilities in Annexure-1*

***Detailed Rationale & Key Rating Drivers***

*CARE has been seeking information from Hitech Hydraulics (HH) to monitor the rating vide e-mail communications dated from August 2020 to January 12, 2021 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the rating.* ***In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating****. The rating(s) on Hitech Hydraulics bank facilities will now be denoted as* ***CARE B+; Stable; Issuer Not Cooperating * and 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 ratings.***

**Detailed description of the key rating drivers**

At the time of last rating dated October 31, 2019 the following were the Strengths and Weaknesses

***Key Rating Weaknesses***

***Small scale of operations***

Despite long track record, the scale of operations of the firm remained small marked by total operating income (TOI) of Rs. 24.78 crore in FY19 (Prov.) with low net worth base of Rs. 5.67 crore as on 31st March 2019 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. 59.45 crore as on October 18, 2019 (PY: Rs.33.48 crore), which translates to 2.40x of total operating income of FY19 (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 FY21.

***Working capital intensive nature of operations***

The firm operates in working capital intensive nature of business, hence, the operating cycle of the firm remained elongated at 111 days in FY19 (Prov.). HH generally executes orders for Government Organizations due to which the working capital cycle is elongated on account of high collection 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. The collection period improved from 122 days in FY18 to 86 days in FY19 (Prov.) on account of timely receipt of payments from clients. However, the inventory period of the firm increased from 93 days in FY18 to 125 days in FY19 (Prov.) as the firm has stock in progress of quality testing. The average creditor days continued to remain high at 100 days FY19 (Prov.) when compared to 103 days in FY18. To meet the above working capital gap, the firm is dependent on working capital bank borrowings, therefore the average monthly utilization of the firm stood at 80%-90% for the last twelve months ended 30 September, 2019.

***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.

***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 55, 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 stood stable at Rs.24.78 crore in FY19 (Prov.) as compared to Rs.24.80 crore in FY18 due to lower sales of manufactured goods during FY19. The revenue contributed from manufactured goods have significantly decreased, however, the firm has undertaken more AMC contracts that has fetched nearly 58% of the total operating income during FY19 (Prov.).

***Satisfactory and increasing profitability margins***

The PBILDT margins of the firm increased by 335 bps i.e. from 15.98% in FY18 to 19.33% in FY19 (Prov.) on account of better margins associated with the job works undertaken by the firm for Annual Maintenance Service Contracts (AMC) for periodical check-up of Hydraulic equipment.

The PAT margin of the firm has decreased from 6.26% in FY18 to 5.88% in FY19 (Prov.) due to increase in depreciation and interest cost. The depreciation has increased as the firm has purchased new machinery (CNG & CNC vertical machine centre & CNC Lathe model) worth Rs. 2.76 crore during FY19 which was funded through a term loan of Rs. 2 crore and partners' capital of Rs. 0.76 crore.

***Financial risk profile marked by comfortable capital structure and debt coverage indicators***

The capital structure of the firm denoted by debt equity ratio and overall gearing improved from 0.49x and 1.92x as on March 31, 2018 respectively to 0.48x and 1.70x as on March 31,2019 (Prov.) respectively due to increase in tangible net worth on account of accretion of profits to net worth. Although, the total debt has increased in FY19 (Prov.) at the back on increase in term debt availed by the firm, the capital structure stood satisfactory.

Debt coverage indictors marked by total debt/GCA deteriorated marginally from 3.80x in FY18 to 3.94x in FY19 (Prov.) due to increase in debt levels of the firm. However, the interest coverage stood stable at 3.20x in FY19 (Prov.) (PY: 3.19x in FY18) in spite of the increase in interest costs which has been absorbed by the increase in operating profit of the firm.

***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 ~69% 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***

Outlook for the defence industry is positive with the country spending about 1.56 percent of its GDP in the defence sector. Government of India has raised FDI ceiling to 100% ( through government approval route only) and in other cases to 49% from the current 26% on a condition that joint ventures for manufacturing of defence equipment will remain in Indian hands which allows the domestic industry to benefit in the areas of design, development and state of the art manufacturing. Further, as per new Defence Procurement Procedure, any contract above Rs.300 crore in the "Buy" and "Buy and Make" categories, offsets corresponding to 30% of the value of the contract are compulsory (which means the vendor has to invest 30% of the total value of the contract in Indian industry so as to have indigenous content in the product). There are revisions made to the DPP which enables the growth of Indian Defence sector resulting in positive outlook of the industry.

**Analytical approach: Standalone**

**Applicable Criteria***:*

Policy in respect of Non-cooperation by issuer
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios –Non-Financial Sector
CARE's Rating Methodology- Manufacturing Companies
Criteria for Short Term Instruments

**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. Vamsi Krishna (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 is also having 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 in Kukatpally, Hyderabad, Telangana covering the area of 1150 sq. Feet.

| Brief Financials (Rs. crore) | FY18(A) | FY19 (Prov.,) |
| --- | --- | --- |
| Total operating income | 24.80 | 24.78 |
| PBILDT | 3.96 | 4.79 |
| PAT | 1.55 | 1.46 |
| Overall gearing (times) | 1.92 | 1.70 |
| Interest coverage (times) | 3.19 | 3.20 |

**A-Audited, Prov- Provisional**

***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 November 10, 2020.*

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
| --- | --- | --- | --- | --- | --- |
| Fund-based - LT-Cash Credit | - | - | - | 6.00 | CARE B+; Stable; ISSUER NOT COOPERATING* |
| Non-fund-based - ST-Bank Guarantees | - | - | - | 8.50 | CARE A4; ISSUER NOT COOPERATING* |
| Fund-based - LT-Term Loan | - | - | May-2023 | 1.82 | CARE B+; Stable; ISSUER NOT COOPERATING* |

**Issuer did not cooperate; based on based available information*

**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 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 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 | 6.00 | CARE B+; Stable; ISSUER NOT COOPERATING* | - | 1)CARE BB; Stable (31-Oct-19) | 1)CARE BB; Stable (26-Sep-18) | - |
| 3. | Non-fund-based - ST-Bank Guarantees | ST | 8.50 | CARE A4; ISSUER NOT COOPERATING* | - | 1)CARE A4 (31-Oct-19) | 1)CARE A4 (26-Sep-18) | - |
| 4. | Fund-based - LT-Term Loan | LT | 1.82 | CARE B+; Stable; ISSUER NOT COOPERATING* | - | 1)CARE BB; Stable (31-Oct-19) | - | - |

**Issuer did not cooperate; based on based available information*

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities*:* Not Applicable**

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

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1. | Fund-based - LT-Cash Credit | Simple |
| 2. | Fund-based - LT-Term Loan | Simple |
| 3. | Non-fund-based - ST-Bank Guarantees | Simple |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

## Contact us

**Media Contact**
Name: Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

**Analyst Contact**
Name: Ms. P Shanti
Contact no: 040-40102030
Email: p.shanti@careratings.com

**Business Development Contact**
Name: Mr. Ravi Babu
Contact no: 9989998695
Email ID: ravi.babu@careratings.com

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