HYT Engineering Company Private Limited

November 21, 2023

Ratings

Instrument/Facility	Rated Amount (Rs Cr.)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	159.00 (enhanced from 155.00)	IVR BBB/ Negative (IVR Triple B With Negative Outlook)	Rating reaffirmed and outlook changed from Stable to Negative	Simple
Short Term Bank Facilities	331.84 (reduced from 339.25)	IVR A3+ (IVR A Three Plus)	Reaffirmed	Simple
Total	**490.84** **(Four Hundred and Ninety Crore and Eighty Four Lakhs Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the rating outlook from Stable to Negative assigned to the bank facilities of HYT Engineering Company Private Limited (HECPL) considers the high working capital cycle along with sporadic liquidity issues. The ratings, however, derive comfort from the fact that the company is an established player with extensive experience of the promoter in turnkey projects, significantly improved financial performance in FY23, strong order book position providing medium term revenue visibility with proven execution capability, and the fact that the company is a customised solutions provider having collaboration with international entities. These rating strengths are partially constrained by the stretched receivables leading to high operating cycle, leveraged capital structure with moderate coverage indicators along with project execution risk with instances of liquidated damages, and susceptibility of operating margin to volatile input prices.

Key Rating Sensitivities:

Upward Factors

- Successful commissioning and completion of project without any time or cost overruns leading to liquidated damages.
- Steady improvement in profitability and debt related matrices.
- Sustained improvement in the working capital cycle.

Downward Factors

- Any deterioration in the leverage and/ or coverage indicators.
- Slowdown in order book addition and execution.
- Any further elongation in the working capital cycle leading to liquidity issues.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established player with extensive experience of promoter in turnkey projects**

HECPL was founded in the year 1977 spearheaded by Mr. Bhojraj Hemraj Teli who is presently the Managing Director of the company; he has over 30 years of experience majorly catering to the Indian Railways, his experience has been instrumental in forging long term relationships with their clients. The company has a track record of undertaking turnkey projects involving infrastructure and related facilities of coach and shade erections for railways with Indian railways, Metros as well international clients. The Company has total monopoly in manufacturing of special purpose lathe machines catering to the Indian Railways.

- **Significant improved financial performance in FY23**

The Company's Total Operating Income improved by 33.5% YoY from INR433.34 crore in FY22 to INR578.61 crore in FY23. EBITDA improved by around 32% YoY from INR82.75 crore in FY22 to INR108.96 crore in FY23 with EBITDA margin remaining at around 19%. The improvement in revenue was led by significant improvement in project business, revenue (including GST) of which increased from INR231.26 crore in FY22 to INR446.90 crore in FY23 while the improvement in EBITDA as a whole was in line with the improvement in revenue as cost structures in FY23 were in line with FY22

- **Strong order book position providing medium term revenue visibility with proven execution capability**

The Company had an unexecuted order book of Rs 1867 crore as on September 30, 2023, which is 3.22x FY23 revenue. Thus, the order backlog provides very good revenue visibility over the medium term. HECPL has established concrete relationships with reputed customers in the market which has resulted in repeat orders of sizeable numbers. The company executed orders for Indian Railways and its various departments (which has constituted majority of their customer base – including Central Organisation for Modernisation of Workshops, Northern Railways, Carriage Repair Workshop), GE Diesel Locomotive Pvt Ltd and Integral Coach Factory.

- **Customised solutions provider having collaborations with international entities**

HECPL has successfully undertaken projects by collaborating with international construction companies such as SMH Railways (Malaysia) in which they have collaborated to build a network of railways in Malaysia, Naledi Rail Engineering (South Africa) and other major firms. In addition to designing and manufacturing machines HECPL also provides integrated and customised services to its national and international clients. Along with installation & commissioning and reconditioning & repairing works. Previously the company has had arrangements with reputed US, Netherlands and Italy – based companies for construction of coil spring manufacturing facility in Chennai, along with joint collaborations to manufacture machinery used for the purpose of setting up of railways in South Africa and Malaysia.

Key Rating Weaknesses

- **Stretched receivables leading to high operating cycle**

Revenues in the manufacturing segment are realised on an 80-20 basis; wherein 80% of the revenues from a particular contract are realised post-delivery of the machinery to the customer (usually within 1-1.5 months of manufacture) and the balance amount is realised after 1 month of installation of the machinery, the final realisation of the 20% of the contract amount takes about 2-3 months. Under Turnkey/EPC Projects, the revenues are realised on a 70-20-10 basis, wherein 70% is realised when the machinery is delivered, 20% is realised post installation & checks and 10% is realised after a final certificate of performance of the machinery is provided usually taking 12-18 months. HECPL largely caters to government entities, this generally leads to delays in payment receipts from them. The average collection period of the Company was maintained between 188 and 227 days between FY21 and FY23. The operating cycle has also deteriorated steadily from 192 days in FY21 to 235 days in FY22 and 243 days in FY23. This has put pressure on the liquidity of the company as evident from few instances of overutilisation in the fund based limits of the company; however, the same was regularised shortly. The receivable days are expected to be more or less the same in the future due to the nature of the industry.

- **Leveraged capital structure with moderate coverage indicators**

The Company had a leveraged capital structure with an overall adjusted gearing ratio (netting off the investments in subsidiaries) of 1.73x as on March 31, 2023 compared to 1.29x as on March 31, 2022. The primary reasons for the increase in gearing ratio was the presence of project specific debt of around INR 94 crore on March 31, 2023 and an increase in CC utilisation by around INR 77 crore on March 31, 2023 for meeting working capital requirements. The coverage indicators were moderate with an ISCR of 2.24x in FY23 (FY22: 2.20x) and a DSCR of 1.11x in FY23 (FY22: 1.23x).

- **Project execution risk with instances of liquidated damages**

The ability of the company to execute orders in a timely fashion as stipulated in their contract with their customers remains of paramount importance as any delays in execution of contracts can lead to the company having to pay liquidated damages to the opposite party. The Company has incurred liquidated damages in the past as they have failed to deliver on the timelines which has resulted in the company having to pay for damages amounting to INR5.45 crore in FY18, INR0.51 crore in FY19 which got further increased to INR5.25 crore in FY20. FY21 onwards there has been a drop and the amounts have fallen to INR0.14 crore in FY21 and INR0.47 crore in FY22 and INR0.28 crore in FY23. Infomerics notes that these damages were incurred due to externalities beyond the control of the company such as during the transportation of the machinery from the place of manufacturing to the place of installation, there have been instances wherein there have been delays which are beyond the control of the company, even after delivery of the machinery the company faces many hurdles which come under the purview/authority of the Indian Railways such as site clearances, provision of electricity – in many such cases the delays are due to the railways due to which the due date gets extended. Despite booking an expense of liquidated damages the company has stated that there have been many instances wherein these costs have been recovered in subsequent years and have been added into other income.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria for rating outlook]

[Rating Methodology for Manufacturing Companies]

[Rating Methodology for Infrastructure Companies]

[Financial Ratios & Interpretation (Non-Financial Sector)]

Liquidity – Adequate

The current ratio stands at 1.22x on March 31,2023 which is comfortable. The Company's GCAs during FY24-26 comfortably cover the debt repayments due between FY24 and FY26. The Company's average fund based utilisation for the 12 months ended October 2023 is around 86%, which leaves an adequate cushion. The DSCR of the Company is comfortable between FY24 and FY26.

About the Company

HYT Engineering Corporation, started as a proprietorship organization with Mr. Bhojraj Teli as proprietor, was converted to a Private Limited Company as HYT Engineering Company Private Limited (HECPL) which was incorporated in June 14, 1989. HECPL started its operations at Chinchwad, Pune in 1977 with manufacturing of small drilling machines and lathes. Further, since 2001 the company has ventured in EPCs thereby improving the profitability margins of the company. HECPL manufactures special-purpose lathe machines having its application in the production of railway axels. Further it also undertakes the turnkey projects involving infrastructure and related facilities of coach and shade erections for railways with Indian railways & metros as well international clients. It also provides maintenance services related to the projects. The company has three verticals in which it is engaged in: Manufacturing of machineries that complement and are used in railway workshops, Turnkey Projects mostly mechanical and electrical in which the company supplies machines on the basis of orders taken and Transfer of Technology model in which they undertake ventures with parties (both domestic and international) in manufacturing machines that are either exported or utilised in in-house activities. The company has near-monopoly status in manufacturing of special purpose lathe machines and it caters to the Indian Railways.

Financials (Standalone):

INR in Crores

For the year ended* / As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	433.34	578.61
EBITDA	82.75	108.96
PAT	24.84	35.38
Total Debt	270.44	424.67
Tangible Net worth (Adjusted)	208.44	244.52
EBIDTA Margin (%)	19.10	18.83
PAT Margin (%)	5.64	6.02
Overall Gearing ratio (X) (Adjusted)	1.29	1.73

**Classification as per Informerics' standards*

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for the last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (August 30, 2022)	Date(s) & Rating(s) assigned in 2021-22 (June 01, 2021)	Date(s) & Rating(s) assigned in 2020-21 (April 01, 2020)
1.	Cash Credit Limits	LongTerm	159.00	IVR BBB/ Negative	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB/ Stable
2.	Bank Guarantees	ShortTerm	326.84	IVR A3+	IVR A3+	IVR A3+	IVR A3+
3.	Letter of Credit	Short Term	5.00	IVR A3+	IVR A3+	IVR A3+	IVR A3+

Name and Contact Details of the Rating Analyst:

Name: Mr. Shantanu Basu	Name: Mr. Sandeep Khaitan
Tel: (033) 48033621	Tel: (033) 48033621
Email: Shantanu.basu@infomerics.com	Email: Sandeep.khaitan@infomerics.com

About Infomerics Ratings:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs Cr.)	Rating Assigned/ Outlook
Cash Credit 1	-	-	-	8.75	IVR BBB/ Negative
Cash Credit 2	-	-	-	45.00	IVR BBB/ Negative
Cash Credit 3	-	-	-	15.00	IVR BBB/ Negative
Cash Credit 4	-	-	-	16.75	IVR BBB/ Negative
Cash Credit 5	-	-	-	19.50	IVR BBB/ Negative
Cash Credit 6	-	-	-	4.00	IVR BBB/ Negative
Cash Credit 7	-	-	-	15.00	IVR BBB/ Negative
Cash Credit 8	-	-	-	15.00	IVR BBB/ Negative
Cash Credit 9	-	-	-	20.00	IVR BBB/ Negative

Bank Guarantee 1	-	-	-	11.25	IVR A3+
Bank Guarantee 2	-	-	-	170.00	IVR A3+
Bank Guarantee 3	-	-	-	44.50	IVR A3+
Bank Guarantee 4	-	-	-	35.00	IVR A3+
Bank Guarantee 5	-	-	-	2.59	IVR A3+
Bank Guarantee 6	-	-	-	34.50	IVR A3+
Bank Guarantee 7	-	-	-	29.00	IVR A3+
Letter of Credit	-	-	-	5.00	IVR A3+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-HYT-nov23.pdf

Annexure 4: Detailed explanation of covenants of the rated facilities: Not Applicable.

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.