

October 20, 2023

## Hightemp Furnaces Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund-based - Cash credit	18.00	18.00	[ICRA] A- (Stable); reaffirmed
Long term - Fund based – Term loan	25.00	25.00	[ICRA] A- (Stable); reaffirmed
Short term - Non-fund based - Others	07.00	07.00	[ICRA] A2+; reaffirmed
Long term- Unallocated- Others	0.10	0.10	[ICRA] A- (Stable); reaffirmed
<b>Total</b>	<b>50.10</b>	<b>50.10</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of the ratings factors in the extensive experience of Hightemp Furnaces Limited (HFL), which is one of the leading players in the domestic commercial heat treatment (CHT) and furnace manufacturing segments. The ratings draw comfort from the access to technical and financial support from its parent entity (Dowa Group), which is a leading player in the CHT and furnace industry in Japan. ICRA notes the strong financial flexibility that HFL enjoys because of its linkages with the Dowa Group, which has extended corporate guarantee (CG) for availing certain bank facilities.

The ratings also favourably factor in the company's modestly diversified revenue profile with presence in CHT, furnace manufacturing and auto components. The rating reaffirmation also factors in the healthy scale of operations of the business with a revenue growth of 25% in FY2023, driven by robust demand across all the segments coupled with the expansion in the company's operating profit margin. The company is expected to benefit from its established track record in the CHT division with a steady growth prospect in the near to medium term.

The ratings, however, are constrained by the company's moderate financial risk profile with significant outstanding external debt availed to fund the capex undertaken during FY2018-2023. The sizeable debt repayments in the near to medium term are likely to result in moderated coverage indicators, given the weakness in demand in its key heat treatment services division, though the coverage indicators are expected to remain comfortable. Further, the increased demand for heat treatment services has necessitated regular capital investment, resulting in higher fixed capital intensity of business.

Additionally, the higher revenue from the heat treatment and auto components divisions is likely to increase the company's working capital intensity wherein it receives payments from the customers within a period of up to 90 days, compared to orders in the furnace division where it receives ~20% of the order value as advance from customers. The company's profitability remains exposed to competition with the revenue prospects exposed to the cyclicity inherent in the capital goods industry.

The Stable outlook on the rating reflects ICRA's opinion that HFL will benefit from its established position as a leading player in the CHT and furnace manufacturing segments in India and would continue to have need-based financial support from its parent. The recovery in demand from the auto sector is also likely to support a healthy revenue growth for the company.

## Key rating drivers and their description

### Credit strengths

**Established position in CHT and furnace manufacturing** – HFL manufactures commercial heat treatment furnaces and has been providing CHT services for more than four decades. The company is primarily owned by the Dowa Group, and benefits from the latter's technology support as well as access to clients, given its strong relations with global players.

**Track record of financial and technical support from Dowa Group** – The Dowa Group has a demonstrated track record of financial support, evident from the sizeable equity infusions (in FY2013 and FY2015), extension of loans as well as corporate guarantee for a part of the working capital facilities. The company also received ECBs worth Rs 58.0 crore in FY2018 at a minimal rate of interest (TIBOR1+0.6%) from the parent to fund its capital expenditure plan. Moreover, need-based deferment of repayments was also granted in FY2021. The Group holding company has also provided corporate guarantees to avail bank facilities from Mizuho Bank for its capital expenditure and working capital requirement. Apart from financial support, HFL enjoys technical support in terms of process knowhow as well as research and development activities from its Group companies.

**Healthy scale of operations and profitability** – HFL's revenue increased by 25% in FY2023 to Rs. 296.2 crore [P] (Rs 236.8 crore in FY2022), post a sharp 62% expansion in FY2022. The growth in revenue was driven by healthy recovery across all segments with the revival of capex in the auto sector and strong demand for heat treatment services. Further, the operating profit margin also improved to 14.0% in FY2023 [P] from 10.7% in FY2022, driven by healthy growth in income from the heat treatment division. The revenue is expected to witness steady growth in the near to medium term from the CHT and auto component divisions coupled with healthy operating profit margin.

### Credit challenges

**Changing revenue mix towards CHT and ACD to keep fixed capital intensity high; client base includes diversified customer base with comfortable credit profiles** – The company has incurred sizeable capex over the past few fiscals to set up new plants and increase the capacity at its existing plants to cater to the growing demand in the heat treatment division. Further, with the revival of capex in the auto industry, the company's revenue from this division also witnessed growth. The increasing contribution from the heat treatment and auto component divisions is likely to increase the company's working capital, given a credit period of up to 90 days allowed. However, for orders in the furnace division, ~20% of the order value is received as advance from customers, thereby supporting the overall working capital position. ICRA notes HFL's key clients include GKN Driveline, Timken, Mahindra CIE, Sona BLW Precision and Sundaram Fasteners, among others, which all have comfortable credit profiles.

**Moderate financial risk profile owing to large debt-funded capex** – HFL has a modest financial risk profile with moderate coverage indicators such as total debt/OPBITDA at 2.7x in FY2023 [P] and DSCR of 1.6 times. During FY2018-2023, the company undertook a capex of over Rs. 200.0 crore, which was funded by Rs. 58-crore ECB availed from the parent company, Rs. ~60-crore long-term loans and the balance through internal accruals and short-term borrowings, resulting in increased debt levels and sizeable repayment obligations over the medium term. With the improvement in operating profit in FY2023, its total debt/OPBITDA improved to 2.7 times from 4.1 times in FY2022, though it continues to remain high. ICRA notes that the expansion in operating profit improved the interest coverage ratio to 7.6 times in FY2023 from 5.0 times in FY2022 even as the DSCR remained moderate at 1.6 times in FY2023 (PY: 1.1 times) due to significant repayments lined up in the current fiscal. Notwithstanding the high debt repayments in the medium term, ICRA notes that the growing cash accruals would allow timely debt servicing, besides access to need-based support from the parent Group.

**Exposure to cyclicity inherent in capital goods industry; operating margin susceptible to competitive intensity** - The revenue from the furnace division is exposed to the cyclicity inherent in the capacity creation by the auto component

industry. Further, it derives a major portion of its revenues from the automobile industry, accentuating the risk of demand volatility. Also, HFL's operating profitability is exposed to competition. The company's revenue from the furnace manufacturing division is expected to be range-bound due to the shift to electric vehicles (EVs) as EVs have lesser gear and transmission-related parts. Hence, companies prefer to outsource heat treatment requirements rather than installing their own furnaces.

### Liquidity position: Adequate

The company's liquidity is expected to be adequate with cash and cash equivalents of Rs. 7.0 crore as on June 30, 2023. The cash flow from operations, coupled with sufficient cushion available in the working capital lines would allow the company to meet its debt servicing obligations comfortably. The healthy cash accrual generation and the modest capex plans in the near to medium term are also expected to provide comfort to the overall liquidity profile. Additionally, comfort can be drawn from its reasonable financial flexibility owing to linkages with the Dowa Group. The Group has provided guarantees for raising debt and has a track record of extending financial support to meet any funding requirement at HFL.

### Rating sensitivities

**Positive factors** – An upgrade could be triggered if the company is able to scale up its operations while improving its profitability margins and debt coverage metrics on a sustained basis.

**Negative factors** – The ratings would be downgraded if there is a significant decline in the company's scale of operations or profitability indicators. Further, weakening in the liquidity position and coverage indicators due to debt-funded capex or increased working capital intensity could also result in a downgrade. Any delay in the receipt of financial support or deterioration in the credit profile of Dowa Holding Co. Ltd would be a negative trigger.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	The ratings factor in the reasonable likelihood of its parent, Dowa Holdings Co Ltd (DHCL), extending financial support as there are close business linkages between them. ICRA expects DHCL to be willing to extend need-based financial support to HFL to protect its reputation from the consequences of a Group entity's distress. There also exists a consistent track record of DHCL having extended timely financial support to HFL in the past, whenever a need has arisen
Consolidation/Standalone	The rating is based on the company's standalone financial profile

### About the company

HFL is part of the Japan-based Dowa Group. It manufactures industrial heat treatment furnaces and offers heat treatment services, primarily to auto component manufacturers. It was incorporated in 1971 and started commercial production of furnaces in 1979 in Bengaluru. It entered into a technical collaboration with Tokyo Heat Treatment Co Ltd. in 1986. In 1990, the Dowa Group acquired a 23.0% stake in the company and gradually increased its stake over the years. At present, it owns a 93.3% stake through Dowa Thermotech Co Ltd.

The company has two plants in Bengaluru to manufacture furnaces and has eight plants (two in Bengaluru and one each in Pune, Gurgaon, Sanand, Bidadi, Ahmedabad and Chennai) for CHT and auto components manufacturing.

## Group Profile

Founded in 1884, the Dowa Group has a diversified presence in waste treatment and recycling, non-ferrous metals, electronic materials, metal processing, heat treatment and manufacturing industrial furnaces. The Group is present in the US, Mexico, China, Thailand, Indonesia, Taiwan, Myanmar and Czech Republic and has over 100 plants and offices across the globe, employing more than 8,000. The Group reported sales of 780.1 billion JPY in the year ended March 31, 2023.

## Key financial indicators (audited)

Hightemp Furnaces Limited (standalone)	FY2021 (A)	FY2022 (A)	FY2023 (Prov)
Operating income (Rs. crore)	145.5	236.8	296.2
PAT (Rs. crore)	2.4	7.9	22.0
OPBDIT/OI (%)	9.6%	10.7%	14.0%
PAT/OI (%)	1.7%	3.3%	7.4%
Total outside liabilities/Tangible net worth (times)	0.8	0.8	0.8
Total debt/OPBDIT (times)	7.8	4.1	2.7
Interest coverage (times)	4.8	5.0	7.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Oct 20, 2023	Sep 16, 2022	Nov 30, 2021	Sep 17, 2020	
1	Fund based - Cash credit	Long term	18.00	-	[ICRA] A-(Stable)	[ICRA] A-(Stable)	[ICRA] A-(Stable)	-	
2	Fund based- Term loan	Long term	25.00	21.70	[ICRA] A-(Stable)	[ICRA] A-(Stable)	[ICRA] A-(Stable)	[ICRA] A-(Stable)	
3	Non-fund based - Others	Short term	7.00	-	[ICRA] A2+	[ICRA] A2+	[ICRA] A2+	[ICRA] A2+	
4	Unallocated- Others	Long term	0.10	-	[ICRA] A-(Stable)	[ICRA] A-(Stable)	-	-	
5	Fund based- Others	Short term	-	-	-	-	-	[ICRA] A2+	

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based – Cash credit	Simple
Long term - Fund based – Term loan	Simple
Short term – Non-fund based- Others	Very Simple
Long term- Unallocated- Others	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure-1: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term – Fund-based- Cash credit	-	-	-	18.00	[ICRA]A- (Stable)
NA	Long term- Fund-based- Term loan	FY2022-23	7-8.45%	FY2027-29	25.00	[ICRA]A- (Stable)
NA	Short term – Non-fund based- Others	-	-	-	7.00	[ICRA] A2+
NA	Long term- Unallocated	-	-	-	0.10	[ICRA]A- (Stable)

Source: Hightemp Furnaces Limited

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure-2: List of entities considered for consolidated analysis: Not Applicable**

## ANALYST CONTACTS

**Sabyasachi Majumdar**  
+91-124-4545304  
[sabyasachi@icraindia.com](mailto:sabyasachi@icraindia.com)

**Anupama Arora**  
+91-124-4545303  
[anupama@icraindia.com](mailto:anupama@icraindia.com)

**Tanya Agarwal**  
+91-124-4545844  
[tanya.agarwal@icraindia.com](mailto:tanya.agarwal@icraindia.com)

## RELATIONSHIP CONTACT

**L. Sivakumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



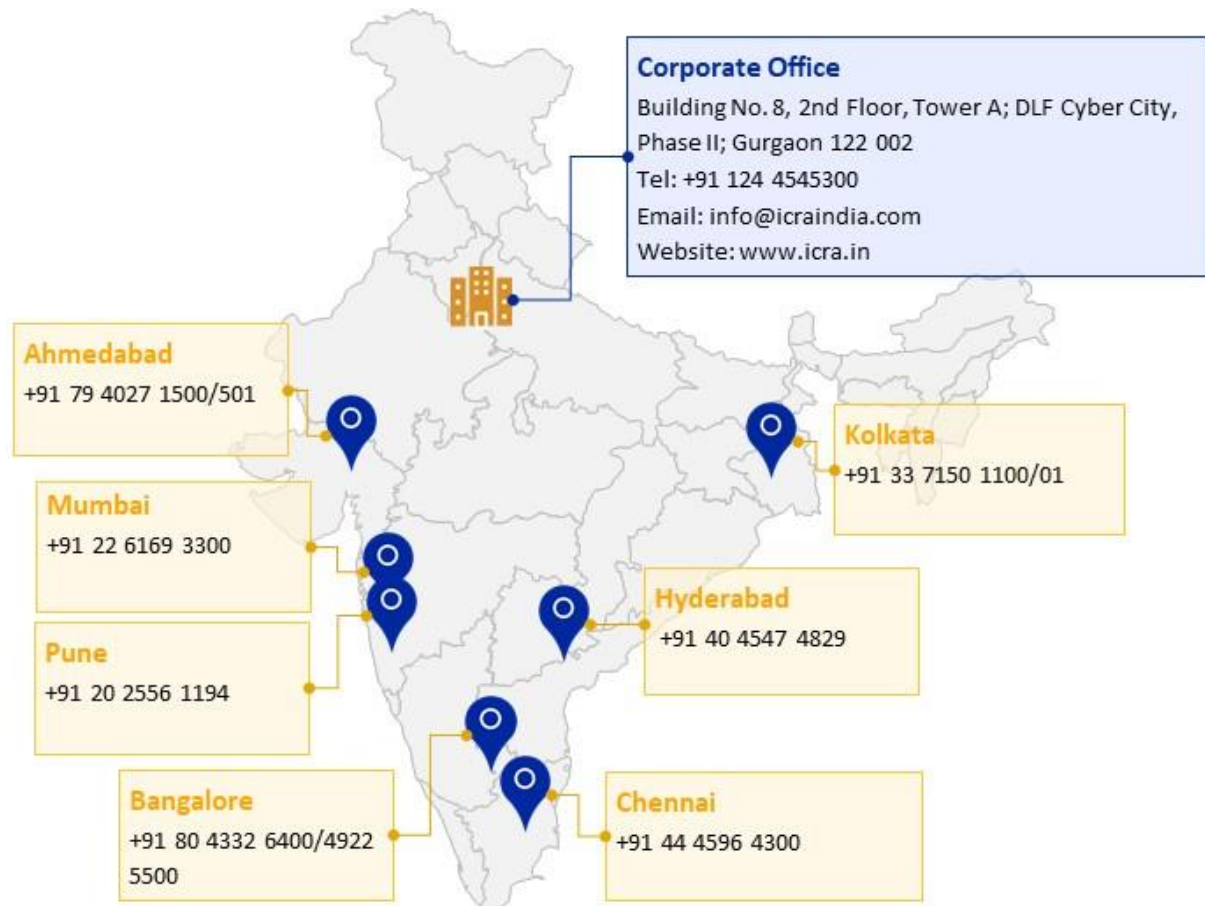
### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.