June 28, 2024

Hitech Hydraulics: Rating reaffirmed and removed from Non-cooperating category; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based - Cash credit	3.00	20.00	[ICRA]B+ (Stable); reaffirmed and removed from ISSUER NOT COOPERATING category and assigned for enhanced amount
Long term – Fund-based - Term loan	0.95	2.94	[ICRA]B+ (Stable); reaffirmed and removed from ISSUER NOT COOPERATING category and assigned for enhanced amount
Long term - Non-fund based	3.00	10.00	[ICRA]B+ (Stable); reaffirmed and removed from ISSUER NOT COOPERATING category and assigned for enhanced amount
Long term - Unallocated	3.05	7.06	[ICRA]B+ (Stable); reaffirmed and removed from ISSUER NOT COOPERATING category and assigned for enhanced amount
Total	**10.00**	**40.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action factors in the extensive experience of Hitech Hydraulics and its promoters in the hydraulics and mechanical engineering industry. The promoters have been involved in the manufacturing of various hydraulics and pneumatics systems for the aerospace and defence sector for around three decades. The company caters to reputed clients, especially from the public sector, including organisations such as the Advanced Systems Laboratory (ASL) and Research Centre Imarat (RCI) of the Defence Research and Development Organisation (DRDO), Bharat Dynamics Limited (BDL), Bharat Electronics Limited (BEL), Hindustan Aeronautical Limited (HAL), Electronics Corporation of India (ECIL), Satish Dhawan Space Centre-SHAR (ISRO), Brahmos Aerospace Private Limited etc.

The rating also factors in the company's healthy outstanding order book position with pending orders from reputed clients such as ASL, RCI, DRDL, SHAR, HAL etc. ICRA expects the profitability to remain healthy over the near to medium term, supported by limited exposure to raw material fluctuation risks.

The rating, however, remains constrained by the company's modest scale of operations with the revenues at around Rs. 30 crore over the last five years. Moreover, the company has high sector concentration risk with its operations mainly catering to a single sector - the defence and aerospace sector. The rating is also constrained by the working capital-intensive nature of operations, resulting in high utilisation of the working capital limits and a stretched liquidity position.

The Stable outlook on the rating reflects ICRA's opinion that the company will continue to benefit from its established position as a supplier of hydraulic and pneumatic systems in the Indian aerospace and defence sector.

Key rating drivers and their description

Credit strengths

Extensive experience in hydraulics and mechanical engineering industry – Hitech Hydraulics was incorporated in 1997 and has been involved in the manufacturing of hydraulics and pneumatics systems for the aerospace and defence sector for nearly three decades. The entity has supplied various hydraulic, pneumatic and mechanical components to many prestigious projects, such as AGNI, PRITHVI, BRAHMOS missiles etc., SUKHOI fighter planes as well as projects from the Bhabha Atomic Research centre (BARC), ISRO etc.

Reputed clientele with a healthy order book position –Hitech Hydraulics has many reputed clients, like Advanced Systems Laboratory (ASL) and Research Centre Imarat (RCI) of the Defence Research and Development Organisation (DRDO), Bharat Dynamics Limited (BDL), Bharat Electronics Limited (BEL), Hindustan Aeronautical Limited (HAL), Electronics Corporation of India (ECIL), Satish Dhawan Space Centre-SHAR, Brahmos Aerospace Private Limited etc. The entity has an outstanding order book of around ~Rs. 44.7 crore as of May 2024 with pending orders from ASL, RCI, DRDO, SHAR, HAL, providing revenue visibility for the near term.

Credit challenges

Moderate scale of operations – The company's revenue has been at around ~Rs. 30 crore over the last five years, though it grew by ~15.5% in FY2024 to Rs. 30.20 crore against Rs. 26.20 crore in FY2023. Despite a healthy outstanding order book position, the scale of operations of Hitech Hydraulics remains moderate.

High sector concentration risk – Hitech Hydraulics supplies hydraulic, pneumatic and mechanical components to the aerospace and defence sector only and this presence in a single end-user industry creates high sectoral concentration risk for the entity.

Working capital-intensive nature of business – The working capital cycle is largely stretched because of the multi-stage execution of defence projects and often extends up to 2-3 years due to delays caused by third-party inspections, testing, government approvals etc. This results in high debtor days. The inventory days are also high because defence-grade raw materials need to be procured at the beginning of the project and this purchase remains blocked till the completion of the project. The stretched working capital cycle results in high utilisation of the sanctioned working capital limits.

Liquidity position: Stretched

Hitech Hydraulics' liquidity position remains stretched with cash and bank balances of ~Rs. 0.86 crore as of March 2024 and no buffer in working capital limits as it has been almost fully utilised over the last 12 months. The company has debt repayment obligations of ~Rs. 0.79 crore in FY2025 and Rs. 0.67 crore in FY2026. However, the cash flow from operations is expected to be positive, supported by healthy profitability.

Rating sensitivities

Positive factors – The rating could witness an upward revision if the company demonstrates a sustained improvement in its performance on the back of healthy revenue growth, while maintaining the profitability level and improving the working capital intensity and liquidity position.

Negative factors – The rating could witness a downward revision if any adverse impact on the company's revenue/profitability results in a significant deterioration in its debt protection metrics and further stretches the working capital cycle and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#)
Parent/Group support	Not Applicable.
Consolidation/Standalone	Standalone

About the company

Hitech Hydraulics was incorporated in 1997 by Mr. A. Srinivasa Rao & Mr. K. Rama Mohan Rao. The firm is involved in the manufacturing of various hydraulics and pneumatics systems for the aerospace and defence sector. The firm has a manufacturing unit at IE Kukatpally, Hyderabad. The company's clients include reputed players like the Defence Research & Development Laboratory, Bharat Dynamics Limited and Bharat Electronics Limited.

Key financial indicators

SRPL – Standalone	FY2023	FY2024*
Operating income	26.2	30.2
PAT	1.3	2.4
OPBDIT/OI	17.8%	20.5%
PAT/OI	5.0%	8.0%
Total outside liabilities/Tangible net worth (times)	3.8	2.3
Total debt/OPBDIT (times)	4.6	4.3
Interest coverage (times)	2.1	1.9

**Provisional; Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA

CRA	Rating	Last PR Date
CARE		

*Source: CARE website; *Issuer did not cooperate; based on best available information*

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on June 26, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 28, 2024	-	Mar 30, 2023	Jan 10, 2022
1	Fund based/ CC	Long term	20.00	-	[ICRA]B+ (Stable)	-	[ICRA]B+(Stable); ISSUER NOT COOPERATING	[ICRA]B+(Stable); ISSUER NOT COOPERATING
2	Fund-based TL	Long term	2.94	2.76	[ICRA]B+ (Stable)	-	[ICRA]B+(Stable); ISSUER NOT COOPERATING	[ICRA]B+(Stable); ISSUER NOT COOPERATING
3	Non-fund based	Long term	10.00	-	[ICRA]B+ (Stable)	-	[ICRA]B+(Stable); ISSUER NOT COOPERATING	[ICRA]B+(Stable); ISSUER NOT COOPERATING
4	Unallocated	Long term	7.06	-	[ICRA]B+ (Stable)	-	[ICRA]B+(Stable); ISSUER NOT COOPERATING	[ICRA]B+(Stable); ISSUER NOT COOPERATING

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Term loan	Simple
Non-fund based	Very Simple
Unallocated	Not Applicable

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 I: 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	NA	NA	NA	20.00	[ICRA]B+ (Stable)
NA	Long term – Fund-based - Term loan	January 2024	NA	January 2031	2.94	[ICRA]B+ (Stable)
NA	Long term - Non-fund based	NA	NA	NA	10.00	[ICRA]B+ (Stable)
NA	Long term -Unallocated	NA	NA	NA	7.06	[ICRA]B+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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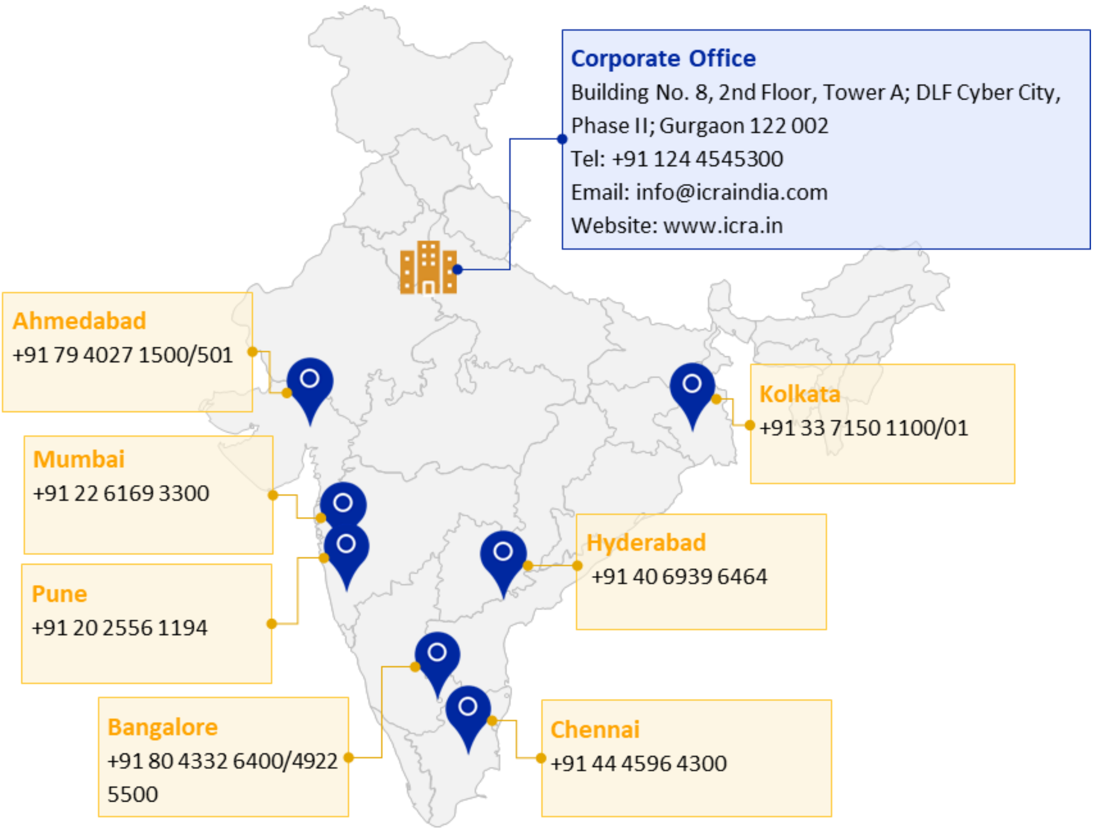

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