June 11, 2024

# Hical Technologies Private Limited: Ratings downgraded to [ICRA]BB/[ICRA]A4; outlook revised to Stable

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term – Term loan** | 16.20 | 14.43 | [ICRA]BB; rating downgraded from [ICRA]BB+ and outlook revised to Stable from Negative |
| **Long-term – Cash credit (sublimit of PCFC)** | (5.00) | (5.00) | [ICRA]BB; rating downgraded from [ICRA]BB+ and outlook revised to Stable from Negative |
| **Short-term – EPC/PCFC** | 40.00 | 40.00 | [ICRA]A4; rating downgraded from [ICRA]A4+ |
| **Short-term – Non-fund based limits** | 3.00 | 3.75 | [ICRA]A4; rating downgraded from [ICRA]A4+ |
| **Long-term/Short-term – Unallocated** | 0.80 | 1.82 | [ICRA]BB/ [ICRA]A4; rating downgraded from [ICRA]BB+/ [ICRA]A4+ and outlook revised to Stable from Negative |
| **Total** | **60.00** | **60.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The downgrade in the ratings of Hical Technologies Private Limited (HTPL) reflects the sustained pressure on its financial profile in the backdrop of deterioration in its working capital cycle (due to elevated inventory levels) leading to stretched liquidity position and increased dependence on short-term debt. As per the provisional results, HTPL's revenues (~10% growth) and profitability (operating profit margins of 12.3% Vs. 10.8% in FY2023) improved on a YoY basis in FY2024. However, deferral of orders from a few customers and supply chain issues (in addition to minimum order quantity requirements and large delivery lead times for the import of electronic components) resulted in elevated inventory holding. This led to worsening of the working capital intensity, as reflected in NWC/OI inching up to 63% in FY2024 from 59% in FY2023 and 51% in FY2022. The utilisation of working capital debt rose sharply to support the high inventory levels and reduced credit period from suppliers. With increase in debt levels, the Group's leverage and coverage metrics deteriorated in FY2024, as reflected in TD/TNW of 2.2 times (Vs. 1.4 times in FY2023), Total Debt to OPBIDTA of 5.3 times (Vs. 5.1 times in FY2023) and interest coverage of 2.3 times (Vs. 4.3 times in FY2023). HTPL remains exposed to risk of cash flow mismatch and its coverage metrics are expected to remain constrained, given the large repayment obligations in FY2025.

HTPL has a healthy order book (Rs. 206 crore in April 2024), which provides revenue visibility for the next 12-18 months. ICRA expects 15-20% YoY growth in FY2025. However, its ability to judiciously manage the receivable cycle and inventory during this period of growth remains a key monitorable from the credit perspective. Moreover, the ratings are constrained by HTPL's modest scale of operations, high sector and customer concentration risks, with the top five customers accounting for ~60% of its revenue in FY2024. HTPL also remains exposed to the risk of foreign currency fluctuations.

The ratings continue to favourably factor in the company's established track record and the promoters' extensive experience in designing and manufacturing of electromechanical components, automated test equipment, data acquisition and control systems, precision machining components, sheet metal mechanical integration, cable harness, and systems integration. The ratings note HTPL's diversified product profile in the aerospace and industrial segments, and its renowned international client base across geographies.

The Stable outlook on the long-term rating reflects ICRA's expectation that despite near-term challenges, HTPL will sustain its operating metrics commensurate with the rating level.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of promoters** – The company's promoters have extensive experience of more than 30 years in designing and manufacturing electromechanical components, automated test equipment, data acquisition and control systems, precision machining components, sheet metal mechanical integration, cable harness, and systems integration. The extensive experience of promoters has helped the Group to gradually grow the business through acquisition of new customers and get repeat orders from the existing customers.

**Diverse products profile and reputed clientele** – HTPL has an established track record in manufacturing electromagnetic components like transformers (planar, helical, toroid, foil wound and hybrid), inductors, solenoids, and motors catering to the aerospace, defence, and industrial verticals. Its customer profile consists of global aerospace majors such as Hamilton Sundstrand Corporation (UTAS), Goodrich Aerospace Services Pvt. Ltd. (UTAS), Thales Solutions Asia Pte Limited, ISRO, etc. In the industrial division, the company caters to customers such as ST Microelectronics Pte Limited, Eaton Corporation, Tyco Electronics UK Ltd, among others. The renowned clientele reduces the counterparty risks to an extent and its established relationships support repeat orders.

### Credit challenges

**Elongated working capital cycle and stretched liquidity** – Despite a YoY improvement in debtor payment cycle, there has been further elongation in working capital intensity in FY2024, as reflected in NWC/OI inching up to over 63% (Vs. 59% in FY2023 and 51% in FY2023). This is attributable to the increase in inventory levels (as the Group imports electronic components of minimum order quantity and large delivery lead times) and tightening of credit terms by the vendors. This has led to negative free cash flows for the third consecutive year in FY2024. The company's reliance on short-term bank funding saw a sharp rise in FY2024 (working capital debt increased to Rs. 82.5 crore as of March 2024 Vs. Rs. 62 crore as of March 2023 with average monthly utilisation at over 95% during the last fiscal). While the Group was able to tie-up additional lines of credit, significant repayments (~Rs. 24 crore) are due in FY2025. With limited buffer in working capital limits, the Group's ability to support revenue growth, ensure timely liquidation of high levels and/or bring in additional funding in a timely manner would be essential from the credit perspective.

**High customer and sector concentration risks** – Most of HTPL's customers are in the aerospace segment, exposing it to sector concentration risk. As a result, the Group is exposed to any cyclicality or downturns in the industry. This apart, the company's customer concentration continued to be high in FY2024, with top five customers accounting for more than ~60% of its revenues. Nonetheless, the long track record of repeat orders across segments and the Group's diversification into the industrial, defence and automotive segments are expected to mitigate the risk to some extent.

**Vulnerability to foreign currency fluctuation risk** – Given the sizeable imports (over 60% of requirement), the Group remains exposed to adverse movement in forex rates. However, with exports accounting for over 80% of its revenues, such risks are partly mitigated by the natural hedge from export earnings. HTPL also hedges a sizeable portion of its net foreign exposure through forward contracts, thereby reducing the risk to an extent.

## Liquidity position: Stretched

HTPL's average utilisation of working capital limits averaged at over 95% in the 12-month that ended in March 2024, despite the enhancement in limits and sanction of one-time short-term loans, indicating limited liquidity buffer. The Group has high repayment obligations of ~Rs. 24 crore, which along with high working capital-intensive nature of operations would continue constraining the free cash flows. Therefore, the Group's liquidity position is expected to remain stretched. Timely enhancement of working capital limits and/or infusion of long-term funds by the promoters would be critical in case the liquidation of the inventory levels is slower than anticipated in FY2025.

## Rating sensitivities

**Positive factors** – The ratings could be upgraded if substantial correction in working capital intensity and sustained growth in earnings lead to a material improvement in liquidity position and leverage metrics.

**Negative factors** – The ratings may be downgraded if subdued earnings and sustained stretch in working capital cycle further weakens its liquidity position. Specific credit metrics that could lead to a rating downgrade would include interest coverage ratio of less than 2.5 times on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has fully consolidated the financials of HTPL and its 51% subsidiary Hical NSE Electronics Pvt Ltd (HNSE). Earlier, its associate company Yagachi Technologies Private Limited (YTPL, wherein HTPL holds 29.5% and rest by HTPL's promoters) was also fully consolidated because of common management and operational linkages. However, with downsizing of YTPL's operations and management's guidance of no incremental operational or financial support from HTPL to YTPL, YTPL is not consolidated with HTPL henceforth. |

## About the company

HTPL (formerly known as Hical Aerospace Private Limited) was established in 2011. It had taken over the manufacturing and engineering division from Hical Infra Private Limited (formerly known as Hical Technologies Private Limited), which was established in 1990. It primarily manufactures high reliability electro-mechanical products like transformers, inductors, solenoids, motors, electromagnetic assemblies and provides advanced integration and engineering services to leading aerospace, railways, auto, medical and speciality industrial companies across the world. It is a 100% export-oriented unit and supplies to its customers in Europe, the US and Asia. Hical NSE Electronics Pvt Ltd is a joint venture between HTPL (51%) and NSE Industries, France (49%). This JV has been established to cater to the Indian offset requirements. HTPL also has an operational associate company – YTPL. YTPL, established in 2008, manufactures electromagnetics, electronic assemblies, and plastic moulding components. YTPL's shareholding is 29.5% held by HTPL, while the balance 70.5% is held by HTPL's promoters.

### Key financial indicators (audited)

| | Consolidated | | Standalone | |
|---|---|---|---|---|
| | FY2023* | FY2024^ Provisional | FY2023 | FY2024 Provisional |
| **Operating income** | 143.2 | 157.1 | 128.2 | 146.2 |
| **PAT** | 2.7 | 3.0 | 1.8 | 2.4 |
| **OPBDIT/OI** | 10.8% | 12.3% | 10.6% | 12.4% |
| **PAT/OI** | 1.9% | 1.9% | 1.4% | 1.6% |
| **Total outside liabilities/Tangible net worth (times)** | 2.2 | 3.1 | 2.8 | 3.2 |
| **Total debt/OPBDIT (times)** | 5.1 | 5.3 | 5.8 | 5.6 |
| **Interest coverage (times)** | 4.3 | 2.3 | 3.1 | 2.2 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore*
** Consolidated financials of HTPL,YTPL and HNSE; ^ Consolidated financials of HTPL and HNSE*

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

## 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 Mar 31, 2024 (Rs. crore) | Date & rating in FY2025 | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 |
| | | | | | Jun 11, 2024 | - | March 30, 2023 | Dec 09, 2021 |
| 1 | **Cash credit (Sublimit of PCFC)** | Long Term | (5.00) | - | **[ICRA]BB (Stable)** | - | **[ICRA]BB+ (Negative)** | **[ICRA]BBB- (Stable)** |
| 2 | **Term Loan** | Long Term | 14.43 | - | **[ICRA]BB (Stable)** | - | **[ICRA]BB+ (Negative)** | **[ICRA]BBB- (Stable)** |
| 3 | **EPC/PCFC** | Short Term | 40.00 | - | **[ICRA]A4** | - | **[ICRA]A4+** | **[ICRA]A3** |
| 4 | **Non-fund based limits** | Short Term | 3.75 | - | **[ICRA]A4** | - | **[ICRA]A4+** | **[ICRA]A3** |
| 5 | **Unallocated** | Long Term/ Short Term | 1.82 | - | **[ICRA]BB (Stable)/ [ICRA]A4** | - | **[ICRA]BB+ (Negative)/ [ICRA]A4+** | **[ICRA]BBB- (Stable)/A3** |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long-term – Fund-based – Term loan** | Simple |
| **Long-term – Interchangeable – Cash credit** | Simple |
| **Short-term – Fund-based – EPC/PCFC** | Very Simple |
| **Short-term – Non-fund based** | Very Simple |
| **Long-term/Short-term – 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** | Cash credit (Sublimit of PCFC) | - | - | - | (5.00) | [ICRA]BB (Stable) |
| **NA** | Term loans | FY2017 | - | FY2027 | 14.43 | [ICRA]BB (Stable) |
| **NA** | EPC/PCFC | - | - | - | 40.00 | [ICRA]A4 |
| **NA** | Non-fund based limits | - | - | - | 3.75 | [ICRA]A4 |
| **NA** | Unallocated | - | - | - | 1.82 | [ICRA]BB (Stable)/ [ICRA]A4 |

*Source: Company*

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

## Annexure II: List of entities considered for consolidated analysis

| Company Name | HTPL Ownership | Consolidation Approach |
|---|---|---|
| **Hical Technologies Private Limited** | - (rated entity) | Full Consolidation |
| **Hical NSE Electronics Private Limited** | 51.0% | Full Consolidation |

*Source: Annual Report*

## ANALYST CONTACTS

**Rajeshwar Burla**
+91 40 6939 6443
rajeshwar.burla@icraindia.com

**Ashish Modani**
+91 20 6606 9912
ashish.modani@icraindia.com

**Ritu Goswami**
+91 124 4545 826
ritu.goswami@icraindia.com

**Rohit Pati**
+91 80 4332 6426
rohit.pati@icraindia.com

## RELATIONSHIP CONTACT

**L. Shivakumar**
+91 22 6114 3406
shivakumar@icraindia.com

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com

## Helpline for business queries

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

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.

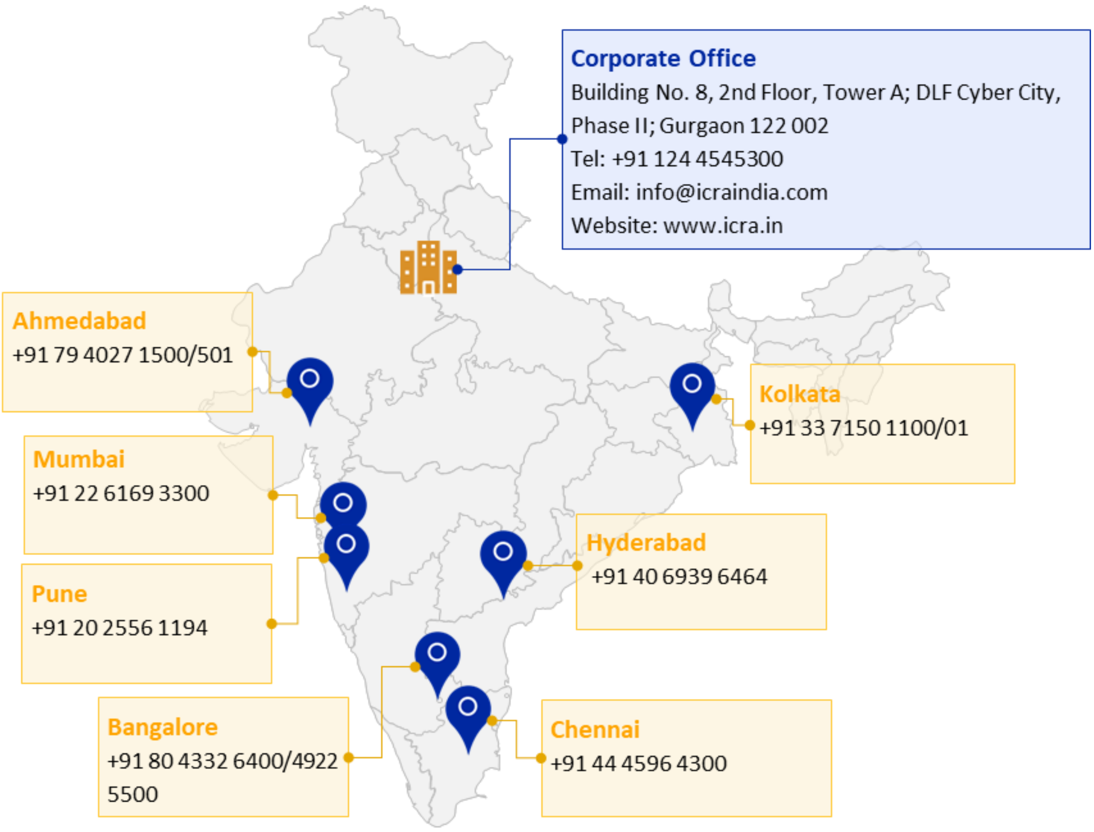
For more information, visit www.icra.in

## ICRA Limited


### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45


### Branches






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 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.