

December 18, 2024^(Revised)

Hi-Q Electronics (P) Limited: Ratings reaffirmed; removed from 'Issuer 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 – Term loan	2.88	48.75	[ICRA]BBB+(Stable); reaffirmed and removed from Issuer Not Cooperating category and assigned for enhanced amount
Long-term – Fund-based – Cash credit	5.50	16.50	[ICRA]BBB+(Stable); reaffirmed and removed from Issuer Not Cooperating category and assigned for enhanced amount
Short-term – Non-fund based	3.00	13.00	[ICRA]A2; reaffirmed and removed from Issuer Not Cooperating category and assigned for enhanced amount
Long-term/Short-term –Unallocated	13.74	14.00	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed and removed from Issuer Not Cooperating category and assigned for enhanced amount
Total	25.12	92.25	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Hi-Q Electronics (P) Limited (Hi-Q), along with the removal of the ratings from the "Issuer Not Cooperating" category factor in the resumption of cooperation by the company in terms of information sharing. The ratings favourably note its established track record in the high margin multi-layer printed circuit board (PCB) manufacturing business with focus on entities in the defence and aerospace industries, its reputed customer profile and demonstrated technological capabilities, which underlines its competitive position and act as entry barriers for new entrants. The ratings derive support from the company's healthy financial risk profile, characterised by healthy operating margins, comfortable gearing and healthy debt coverage indicators.

ICRA notes that the company commenced a major capex exercise (of Rs. 65.0 crore) in October 2024 to boost capacity to meet the rising demand and this process is expected to be completed by November 2025. The demand outlook remains favourable, given that is a major supplier to the defence and aerospace industry and its growing presence in the export markets. ICRA expects an improvement in its scale to ~Rs. 125.0 crore in FY2025 (PY: Rs. 93.1 crore) and Rs. 140-150 crore in FY2026, with healthy operating profitability of over 20% in the medium term.

The ratings, however, remain constrained by the company's modest scale of operations (despite the YoY growth) owing to the niche nature of its business and high working capital intensity of operations due to its elevated inventory (necessitated by longer lead times associated with foreign suppliers and to ensure quicker order turnaround) and long receivable period. Further, given the sizeable ongoing capex, the coverage metrics are likely to moderate in the medium term. Timely completion and ramp-up in operations from the expanded capacity will be a key monitorable. The electronics industry demands constant innovation and adaptation to latest technologies to restrict competitive pressure, which could necessitate further capital expenditure. Therefore, the company's ability to keep undertaking prudent investments, while maintaining its leverage, will remain crucial from the credit perspective. Hi-Q is also exposed to adverse movements in exchange rates since it meets a significant portion of its raw material

requirements through imports. Nevertheless, this is mitigated to an extent by its buoyant exports (~40% share in revenues in FY2024), which provides a natural hedge.

The Stable outlook on the long-term rating indicates ICRA's expectation that despite the sizeable debt-funded capex being undertaken and related execution and ramp-up related uncertainties, Hi-Q will be able to maintain its leverage and coverage metrics, commensurate with its rating level.

Key rating drivers and their description

Credit strengths

Established track record of operations in PCB manufacturing – The company has been manufacturing PCBs since its inception in 1978, beginning operations by producing prototype PCBs for research and development (R&D) purposes by IT players. Later, it began manufacturing complex multi-layered PCBs that are used by entities in the defence/aerospace, telecommunications and medical equipment sectors. Such orders have low raw material components, need faster turnaround times and are technologically more sophisticated, thereby enabling it to fetch relatively better margins over the industry average.

Reputed customer profile and favourable demand outlook – Over the years, the company has built relationships with reputed players in the IT, aerospace, and defence sectors. Hi-Q's customer base continues to be moderately diversified with more than 200 customers and consists of many original equipment manufacturers (OEMs) and subcontractors for OEMs (engaged in assembly). The established relationship has aided Hi-Q to get repeat orders and supports stability in revenues and earnings. The demand outlook remains favourable, given that is a major supplier to the defence and aerospace industry and its growing presence in the export markets.

Large investments in technologies provide competitive advantage; capital-intensive operations act as an entry barrier – The company continues to focus on high-margin complex PCBs to meet the needs of clients in the defence/aerospace, IT sectors. It is capable of manufacturing up to 40-layer PCBs and its board technologies include multi-layered rigid PCBs, flex and HDI PCBs. As a result, Hi-Q has to undertake continuous capital expenditure for the acquisition and upgradation of technology and capacity, which acts as an entry barrier for new entrants.

Credit challenges

Modest scale of operations with highly working capital-intensive nature of operations – Despite being in operations for over four decades, the company has a modest scale of operations, as reflected in an operating income of Rs. 93.1 crore in FY2024, due to the niche nature of its business. Moreover, its operations are highly working capital intensive in nature (NWC/OI of 36% in FY2024; ranging within 35%-45% over the last five years) on account of high inventory holding days of ~180 days (resulting from the longer lead times associated with foreign suppliers, minimum quantity order requirement for most raw material, and to enable quicker turnaround times) and long receivable periods for select public sector undertakings and key customers. The company's ability to effectively manage its working capital cycle, along with the expected scale-up in operations, will be crucial from the credit perspective.

Sizeable debt-funded capex plans to moderate leverage and coverage metrics – To meet the growing business demand, the company has a sizeable debt-funded capex programme currently underway to expand capacities. It has secured a sanction of a term loan worth Rs. 48.75 crore for the same, which will be drawn over the next 12 months. The operations are expected to ramp up gradually starting H2 FY2026. Consequently, the leverage and coverage metrics are likely to moderate from FY2024 levels over the medium term. While a moratorium of 15-18 months for repayment provides a cushion for stabilisation of operations, the company's ability to timely complete the expansion and rapidly ramp-up its operations will be a key monitorable.

Exposure to foreign currency risks due to significant proportion of imports – The company imports a substantial portion of its raw materials, which exposes it to forex risk. However, the risk is partly mitigated due to the natural hedge arising from its exports. In FY2024, raw material imports and export sales both accounted for ~40% of the operating income.

Liquidity position: Adequate

Hi-Q's liquidity is expected to remain adequate, with positive cash flows from operations, supported by the buffer available in the working capital facilities (Rs. 10.43 crore as of end of September 2024; average 12-month utilisation of 51%). While the company has a sizeable ongoing capex programme (Rs. 65 crore), financial closure for the same has been achieved (term loan aggregating Rs. 48.75 crore, which will be utilised over FY2025-FY2026). The debt has a moratorium of 15-18 months, which will provide cushion during stabilisation of operations. Nevertheless, ICRA expects the company's cash flows to be adequate to meet its debt servicing obligations.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a significant revenue growth while maintaining healthy operating margins leading to material strengthening of its net worth base, along with improvement in the liquidity position on a sustained basis.

Negative factors – Pressure on Hi-Q's ratings could arise if there is a material decline in earnings or any large debt-funded capital expenditure or deterioration in working capital intensity leading to material weakening in capital structure, debt protection metrics and liquidity on a sustained basis. Specific credit metric that might trigger a rating downgrade would be a DSCR less than 2.0 times on a prolonged basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Hi-Q Electronics Private Limited, founded as a partnership firm in 1978 by the late Dr. S. Venkatachalam, was converted into a private limited company in 1983. Initially, Hi-Q manufactured prototypes/small quantities of complex PCBs that are mainly used by IT hardware companies for their R&D projects. The company later forayed into manufacturing complex multi-layer PCBs with specific design and testing requirements for players in the defence and aerospace sector. Hi-Q's manufacturing facility at Hosur, Tamil Nadu, has technological capabilities, which enables it to produce highly complex PCBs in a short span of time.

Key financial indicators (audited)

Standalone	FY2023	FY2024
Operating income	79.1	93.1
PAT	14.0	24.3
OPBDIT/OI	29.8%	29.4%
PAT/OI	17.7%	26.1%
Total outside liabilities/Tangible net worth (times)	0.2	0.4
Total debt/OPBDIT (times)	0.2	0.3
Interest coverage (times)	59.9	58.4

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: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)						Chronology of rating history for the past 3 years					
	FY2025						FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash credit	Long term	16.50	18-Dec-24	[ICRA]BBB+ (Stable)	28-May-2024	[ICRA]BBB+ (Stable); ISSUER NOT COOPERATING	-	-	23-Feb-23	[ICRA]BBB+ (Stable)	30-Nov-21	[ICRA]BBB (Stable)
Term loan	Long term	48.75	18-Dec-24	[ICRA]BBB+ (Stable)	28-May-2024	[ICRA]BBB+ (Stable); ISSUER NOT COOPERATING	-	-	23-Feb-23	[ICRA]BBB+ (Stable)	30-Nov-21	[ICRA]BBB (Stable)
Bank guarantee	Short term	13.00	18-Dec-24	[ICRA]A2	28-May-2024	[ICRA]A2; ISSUER NOT COOPERATING	-	-	23-Feb-23	[ICRA]A2	30-Nov-21	[ICRA]A3+
Unallocated	Long term / Short term	14.00	18-Dec-24	[ICRA]BBB+ (Stable)/ [ICRA]A2	28-May-2024	[ICRA]BBB+ (Stable)/[ICRA]A2; ISSUER NOT COOPERATING	-	-	23-Feb-23	[ICRA]BBB+ (Stable)/ [ICRA] A2	30-Nov-21	[ICRA]BBB (Stable)/ [ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Term loan	Simple
Bank guarantee	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	Cash credit	NA	NA	NA	16.50	[ICRA]BBB+(Stable)
NA	Term loan	NA	NA	FY2031/ FY2032*	48.75	[ICRA]BBB+(Stable)
NA	Bank guarantee	NA	NA	NA	13.00	[ICRA]A2
NA	Unallocated	NA	NA	NA	14.00	[ICRA]BBB+(Stable)/[ICRA]A2

Source: Company; *Will be linked to actual date of loan disbursement

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

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

Corrigendum:

Rationale dated December 18, 2024, has been revised with changes as below:

- The maturity date of term loan instrument in Annexure-I was missing and has now been populated.

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