

July 07, 2025

Tata Hitachi Construction Machinery Company Private Limited: Ratings reaffirmed; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/short-term – Fund based/non-fund based – Interchangeable facilities	900.00	900.00	[ICRA]AA (Positive)/[ICRA]A1+ reaffirmed; outlook revised to Positive from Stable
Total	900.00	900.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in outlook to Positive from Stable for Tata Hitachi Construction Machinery Company Private Limited (THCM) reflects ICRA's expectations that its credit profile will improve over the near to medium term, led by continued growth in scale of operations (on the back of a favourable industry outlook) and sustenance of healthy profit margins (benefiting from the extensive cost rationalisation programme undertaken in FY2025). This, coupled with normalisation in working capital intensity, is expected to support sustained improvement in its leverage and coverage indicators. The ratings continue to factor in THCM's established position in the domestic mining and construction equipment (MCE) industry as a leading manufacturer of hydraulic excavators, driven by its extensive product range and widespread service network and capabilities. The ratings derive comfort from the strong technological and operational support from its promoter, Hitachi Construction Machinery Company Limited (HCMC; one of the global leaders in the hydraulic excavator industry) and the substantial financial flexibility THCM enjoys, being a part of Hitachi and Tata Motors Limited ([ICRA] AA+(Stable)/[ICRA]A1+), which helps in raising funds at competitive rates.

The entity saw a significant YoY improvement in operating margins (OPM) in FY2025¹ to 12.8% from 9.1% in FY2024, driven by a focused cost rationalisation programme implemented (starting February 2024), coupled with a favourable product mix (with greater contributions from spares and services) and some one-off sales incentives offered by HCMC. While the working capital intensity saw marginal increase, with NWC inching up to 12% (v10% in FY2024) on account of higher inventory at year end (partly attributable to CEV-IV-compliant machines and some high-value excavators), lower capex and higher profits enabled a YoY decline in debt levels² (Rs. 310 crore as on March 31, 2025 Vs. Rs. 470 crore as of March 2024). These developments cumulatively led to significant improvement in the company's leverage and coverage metrics, with TOL/TNW improving to 1.1 times in FY2025 Vs. 1.4 times in FY2024 and interest cover at over 12 times in FY2025 Vs. 7.1 times in FY2024. Further, with expected normalisation of THCM's inventory levels and sustained healthy margins (OPM at 10-11% on a steady state basis), TOL/TNW is expected to fall below 1.0 times in the near to medium term. A stable demand outlook for the MCE industry, led by renewed policy thrust on infrastructure development (reflected in recovery in project award activity, extension of key infra-scheme (e.g. Jal Jeevan Mission) among other measures), coupled with change in emission norms (CEV IV to V w.e.f., January 2025; which is expected to be favourable for the excavator segment as it will lower price differential with backhoe loaders) and continued increase in mechanisation levels in construction projects (driven by increasing size and complexity) – augers well for THCM's growth prospects.

The long-term rating, however, remains constrained by the intense competition in the MCE industry and susceptibility of THCM's performance to the cyclicity in the construction activity, wherein growth is directly related to infrastructure investments and indirectly to the country's economic growth. While it remains a domestic market leader, the company's

¹ All references to FY2025 financials are as per provisional data shared by the company

² Includes lease liabilities – Rs. 96 crore/Rs. 101 crore as on March 31, 2025/March 31, 2024, respectively.

market share has declined sequentially over the last few years owing to stiff competition, especially from Chinese peers. The ratings also factor in the vulnerability of the company's operations to fluctuations in input prices, supply-chain issues and forex movement, given high import content and limited ability to pass on the same to the end users, thereby keeping the expansion in profit margins range-bound. To mitigate the same, it is undertaking various localisation initiatives, which will also help it improve the price competitiveness of its products. Given that over 80% of its revenues are generated from the excavators and that too, primarily from the domestic market, THCM is also exposed to product concentration risk. Nevertheless, it plans to deepen its offerings – with new and competitively priced products – and intends to diversify revenues through exports and contract manufacturing of components for fellow subsidiaries (under HCMC). The company's ability to successfully implement these strategies, while maintaining a comfortable financial profile, will be crucial from a credit perspective.

Key rating drivers and their description

Credit strengths

Established track record and market position in excavator segment, strong technical support from HCMC – THCM has a track record of over 25 years in the domestic MCE market. It has an established position in the earthmoving equipment segment, with a leading market share in FY2025 in excavators driven by an extensive product range, widespread service network and strong technological and operational support from its promoter, HCMC, one of the global leaders in the hydraulic excavator industry. Additionally, it enjoys substantial financial flexibility by being part of the Hitachi and Tata Groups, which helps in raising funds at competitive rates.

Comfortable financial profile with low leverage and strong coverage indicators – THCM's financial profile is comfortable, characterised by a healthy scale of operations, steady growth in revenues (CAGR of 7% over FY2023-FY2025), sequential improvement in operating margins (12.8% in FY2025, up from 9.1%/6.5% in FY2024/FY2023, respectively), and comfortable leverage (with TOL/TNW at 1.1 times in FY2025 Vs. 1.4/ 1.9 times in FY2024/FY2023, respectively) and debt coverage ratios (interest cover of 12.4 times in FY2025). The improvement in leverage metrics was despite an increase in THCM's working capital intensity in FY2025, with NWC/OI at 12% against 10% in FY2024, due to higher inventory build-up as of March 2025 (partly CEV-IV-compliant inventory, which is allowed to be sold till June 2025 and some high-value excavators). However, this rise in the working capital gap was met through internal accruals thereby leading to a decline in total debt levels to ~Rs. 310 crore (Rs. 215 crore excluding lease liabilities) as on March 31, 2025, over Rs. 470 crore (Rs. 369 crore excluding lease liabilities) as on March 31, 2024. While the company expects to incur capex of Rs. 180-200 crore in FY2026, the same is planned to be funded through internal accruals. Over the medium term, the company's ability to maintain comfortable profitability and coverage metrics and improve its working capital cycle and leverage metrics will be crucial from the credit perspective. Any sizeable dividend payout which could adversely impact its financial metrics, would be a key monitorable.

Favourable long-term demand prospects – Notwithstanding the slow growth in domestic industry volumes expected in FY2026 (impacted by slowdown in new project award activity in FY2025), the demand prospects remain favourable over the medium to long term. It is aided by the Government's continued thrust on infrastructure development, improving mechanisation levels in projects and change in emission norms (CEV IV to V w.e.f., January 2025), which are likely to be favourable for the excavator segment (lowering price differential with backhoe loaders).

Credit challenges

Susceptible to cyclicalities in infrastructure spending – THCM is exposed to cyclicalities in its end-user industries, as the demand for its products is closely linked to construction activity in the domestic economy wherein infrastructure spending by the Government is a key driver (beside private sector capex). Nevertheless, given the Government's thrust on infrastructure development, construction activity is expected to see sustained recovery in the coming quarters, which will support volumes and revenue growth for THCM as well. Also, the company's efforts on diversifying product offerings and exports could partly mitigate this risk over the medium term.

Profit margins vulnerable to stiff competition, volatility in raw material costs and forex fluctuations – THCM's profitability remains vulnerable to any increase in prices of raw materials (mainly steel) as the same accounts for ~80% of the cost structure. Further, with a high import content the company is exposed to risk of supply-chain disruptions and foreign currency

fluctuations, to the extent unhedged. Going forward, while the company’s profitability indicators are expected to remain at comfortable levels, aided by sustained benefits from its cost-control initiatives (introduced in FY2025), its ability to pass on any increase in commodity prices to its customers, amid the stiff competition faced - especially from Chinese peers - would remain a key monitorable.

Liquidity position: Adequate

THCM’s liquidity is expected to remain adequate, with positive cash flows from operations and supported by buffer available as undrawn fund-based working capital limits (~Rs. 685 crore) and free cash balance of ~Rs. 64 crore as on March 31, 2025. The company’s average working capital utilisation stood at ~55% of the sanctioned limits during the 12 months ended in March 2025. Overall, ICRA expects THCM’s current liquidity buffer and expected cash flows from operations to be adequate to service the debt obligations and capex plans of Rs. 180-200 crore in FY2026.

Rating sensitivities

Positive factors – The company’s ability to maintain healthy profit margins and sustain the improvement in its leverage indicators – with TOL/TNW falling below 1.0 times, coupled with increasing its market share in the excavator segment could lead to an upgrade in the ratings.

Negative factors – Pressure on THCM’s ratings could arise, in case of a sustained pressure on its market share and profit margins or if the leverage or coverage metrics deteriorate on account of stretched working capital, higher-than-expected capex or dividend payout. Specific credit metrics that could lead to a rating downgrade include TOL/TNW above 1.5 times on a consistent basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction Vehicles
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

Tata Hitachi Construction Machinery Company Private Limited, formerly Telco Construction Equipment Company Limited, is one of the major players in the Indian mining and construction equipment (MCE) industry with a healthy market share in the hydraulic excavator machine segment. The company’s product range primarily consists of hydraulic excavators. It also sells other products like wheel loaders, backhoe loaders etc., albeit in lower quantities. THCM has two manufacturing facilities, one each at Dharwad (Karnataka) and Kharagpur (West Bengal).

THCM began its operations as the construction equipment division of Tata Engineering in 1961 and was incorporated as Telco Construction Equipment Company Limited in 1998 under the ownership of the Tata Group. In 2000, Hitachi Construction Machinery Company Limited (HCMC) acquired a 20% stake in THCM, subsequently raising it to 40% in December 2005 and 60% in March 2010. In December 2012, the company’s name was changed to Tata Hitachi Construction Machinery Company Limited and subsequently to Tata Hitachi Construction Machinery Company Private Limited. At present, THCM is a joint venture between HCMC (60% stake) and Tata Motors Limited (~40%).

Key financial indicators (audited)

THCM	FY2024	FY2025*
Operating income (Rs. crore)	4,875.2	5024.4
PAT (Rs. Crore)	240.0	370.4

OPBDIT/OI (%)	9.1%	12.8%
PAT/OI (%)	4.9%	7.4%
Total outside liabilities/Tangible net worth (times)	1.4	1.1
Total debt/OPBDIT (times)	1.1	0.5
Interest coverage (times)	7.1	12.4

Source: Company ICRA Research; All ratios as per ICRA's calculations; * Provisional data

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

Note: All financial ratios as per ICRA's calculation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current (FY2025)		Chronology of rating history for the past 3 years						
		Amount Rated (Rs Crore)	FY2026		FY2025		FY2024		FY2023	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund Based/Non Fund Based – Interchangeable facilities	Long Term/Short Term	900.00	July 07, 2025	[ICRA]AA (Positive)/[ICRA]A1+	Jun 18, 2024	[ICRA]AA (Stable)/[ICRA]A1+	Jul 18, 2023	[ICRA]AA (Stable)/[ICRA]A1+	Apr 07, 2022	[ICRA]AA (Stable)/[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/Short Term – Fund Based/Non Fund Based – Interchangeable facilities	Simple

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	Fund Based/Non Fund Based – Interchangeable facilities	NA	NA	NA	900.00	[ICRA]AA (Positive)/[ICRA]A1+

Source: Company

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

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