

September 29, 2020

Hical Technologies Private Limited: Ratings upgraded to [ICRA]BBB- (Stable)/[ICRA]A3; removed from Issuer Not Cooperating category

Summary of rating action

Instruments ^A	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Term Loan 16.20		16.20	[ICRA]BBB- (Stable); Rating upgraded from [ICRA]BB+ (Stable) and removed from 'Issuer Not Cooperating' category
Long Term-Cash Credit (Sublimit) (5.00)	(5.00)	(5.00)	[ICRA]BBB- (Stable); Rating upgraded from [ICRA]BB+ (Stable) and removed from 'Issuer Not Cooperating' category
Short Term-EPC/PCFC 40.00		40.00	[ICRA]A3; Rating upgraded from [ICRA]A4+ and removed from 'Issuer Not Cooperating' category
Short Term – Non-fund based limits 3.00	3.00	3.00	[ICRA]A3; Rating upgraded from [ICRA]A4+ and removed from 'Issuer Not Cooperating' category
Long Term/Short Term-Unallocated 0.80	0.80	0.80	[ICRA]BBB-(Stable)/[ICRA]A3; Ratings upgraded from [ICRA]BB+(Stable)/[ICRA]A4+ and removed from 'Issuer Not Cooperating' category
Total	60.00	60.00	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of the Hical group, comprising Hical Technologies Private Limited (HTPL), Yagachi Technologies Private Limited (YTPL) and Hical NSE Electronics Pvt Ltd (HNSE), considering the common management and the strong operational and financial linkages among them.

The ratings upgrade favourably factors in healthy growth in operating income of Hical Group to Rs. 173.56 crore in FY2020 from Rs. 147.31 crore in FY2019 driven by increased sales from automotive division which was acquired in February 2019. Although the group revenues decreased by 37.3% to Rs. 40.8 crore in 5m FY2021 compared to Rs. 65.1 crore in 5m FY2020 with slow order execution from aerospace segment, the impact on operating margins is expected to be minimal on the back of lower employee expenses and cost control measures undertaken by the group. Further, with diversification of business into industrial and automotive segment, the extent of impact on revenues and margins would remain a key rating monitorable. The ratings also consider the diversified product profile of the group with presence in aerospace, automotive and industrial segment; and its renowned international client base diversified across geographies.

The ratings, however, are constrained by high concentration of revenues with aerospace segment contributing to more than 60% of revenue for the past 5 years; and high customer concentration with top 5 customers contributing 59.3% of revenue in FY2020. The ratings are also constrained by high working capital intensity at 34.8% in FY2020 due to high inventory holding with the company required to import components having large lead time and minimum order quantity. With sizeable debt funded capital expenditure undertaken by the company over the last 2-3 years, the gearing had increased to 1.17 times as on March 31, 2020. The debt coverage indicators are moderate with interest cover of 4.3 times, Debt/OPBDITA of 3.14 times for FY2020.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that Hical group will benefit from its established track record in the aerospace segment and its diversified product profile with customers across geographies.

Key rating drivers

Credit strengths

Diverse product segments across aerospace, automotive and industrial segment: - HTPL has an established track record in manufacturing of electromagnetic components like transformers (planar, helical, toroid, foil wound and hybrid), inductors, solenoids, and motors catering to the aerospace, defence and industrial verticals. Also, the group manufactures inner ball joints and outer ball joint sub-assemblies, tie rod, ball housing, shaft joints, shaft and pipe joint assembly, pinch bolt yoke assembly etc. catering to the automotive segment.

Reputed client base – Hical group customer profile consists of global aerospace majors such as Hamilton Sundstrand Corporation (UTAS), Goodrich Aerospace Services Pvt. Ltd. (UTAS), Thales Solutions Asia Pte Limited, ScioTeq BVBA, Celestica Malaysia Sdn Bhd, Eaton Aerospace, and Moog Controls (India) Private Limited etc. In the industrial division, the company caters to customers such as ST Microelectronics Pte Limited, Accudyne Industries India Pvt Ltd, Vacuumschmelze GmbH & Co., Raychem RPG Pvt Ltd, TE Connectivity Limited, Tyco Electronics UK Ltd and in the automotive division the company caters to Mando Automotive India Private Limited.

Credit challenges

High concentration of revenues from aerospace segment: Aerospace vertical is the mainstay for Hical group contributing to more than 60% of the revenues for the past five years. As a result, the group is exposed to any cyclicity or downturns in the industry as witnessed in 5mFY2021. However, the groups diversification into industrial and automotive segment is expected to mitigate the risk to some extent.

High working capital intensive nature of operations – HTPL's working capital intensity remained high with NWC/OI of 34.8% as on March 31, 2020, as the company is required to maintain 3-4 months of raw material inventory. Additionally, the company is required to follow 'minimum order quantity' for most of its raw materials, resulting in high inventory levels. Going forward, the working capital intensity is expected to reduce with the company focusing on reducing inventory levels in FY2021.

High customer concentration- The company's customer concentration continued to be high in FY2020, with top five customers accounting for 59.3% of Hical group's revenues. The group has added new customers like Esterline Belgium BVBA, Benchmark Electronics Inc. and Hindustan Aeronautics Limited in the aerospace division and Mando Automotive India Private Limited in the automotive segment which should reduce the concentration going forward.

Moderate capital structure and coverage indicators - The capital structure of the group remained moderate with a gearing of 1.2 times as on March 31, 2020. The gearing had increased over the years owing to sizeable debt funded capital expenditure undertaken by the group. The coverage indicators of the company declined in FY2020 and remained moderate as indicated by total debt/OPBITDA of 3.1 times and interest cover of 4.3 times for FY2020.

Liquidity position: Adequate

The Hical group's liquidity remains adequate with sufficient undrawn working capital limits. The average fund based utilisation for the period from August 2019 to August 2020 is at 83.8% for HTPL and 38.5% for YTPL. Hical group has

repayment obligation of Rs. 6.0 crore in FY2021 and the cash accruals are expected to be adequate to meet its debt repayment obligations. Also, low capex plans of Rs 4.0 crore for the group will support the liquidity position to an extent.

Rating sensitivities

Positive triggers – ICRA could upgrade the rating if sustained improvement in revenues and profitability leads to an improvement in its capital structure and debt-protection metrics. Specific credit metrics that could lead to an upgrade of ratings include Total Debt/ OPBITDA less than 2.3 times.

Negative triggers – Negative pressure on the ratings may arise, if any reduction in the company's profitability and cash accruals or further increase in the working capital intensity weakens its liquidity position. Specific credit metrics that could lead to a downgrade of ratings include DSCR of less than 1.4 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 consolidated the financials of Hical Technologies Private Limited, its associate Yagachi Technologies Private Limited and its Joint venture Hical NSE Electronics Private Limited, given the strong operational and financial linkage between the companies.

About the company

Hical Technologies Private Limited (HTPL) (formerly known as Hical Aerospace Private Limited) was established in 2011 and 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 the leading aerospace, railways, auto, medical & specialty industrial customers across the world.

Yagachi Technologies Private Limited, established in 2008 manufactures Electromagnetics, electronic assemblies and plastic molding components. It is a 100% export-oriented unit and supplier to its customers located in Europe, United States and Asia.

Hical NSE Electronics Pvt Ltd is a Joint Venture between Hical Technologies Pvt Ltd, India (51%) and NSE Industries S A (France) (49%). It manufactures wiring and harness, integration of wired boxes, cabinets and racks, and provides repair and maintenance services for avionics products like flight recorders.

Key financial indicators (Consolidated)

	FY2019	FY2020*
Operating Income (Rs. crore)	147.8	173.6
PAT (Rs. crore)	8.6	5.8
OPBDIT/ OI (%)	14.9%	11.1%
RoCE (%)	18.8%	10.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.8
Total Debt/ OPBDIT (times)	2.6	3.1
Interest Coverage (times)	4.2	4.3

**provisional*

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2021)		Rating 29-Sep-20	Rating 09-Sep-20	Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on - Sep-20			FY2020 28-Nov-19	FY2019 26-Mar-19	FY2018 08-Dec-17
1 Cash Credit (Sublimit)	Long term	(5.00)	-	[ICRA]BBB- (Stable);	[ICRA]BB+(Stable) ISSUER NOT COOPERATING*	[ICRA]BBB- (Stable)	[ICRA]BBB- (Positive); Withdrawn	[ICRA]BBB- (Positive)
2 Term Loan	Long term	16.20	9.8	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable) ISSUER NOT COOPERATING*; [ICRA]A4+ ISSUER NOT COOPERATING*;	[ICRA]BBB- (Stable)	[ICRA]BBB- (Positive); Withdrawn	[ICRA]BBB- (Positive)
3 EPC/PCFC	Short term	40.00	-	[ICRA]A3	[ICRA]A4+ ISSUER NOT COOPERATING*; [ICRA]A4+ ISSUER NOT COOPERATING*;	[ICRA]A3	[ICRA]A3; Withdrawn	[ICRA]A3
4 Non-fund based limits	Short term	3.00	-	[ICRA]A3	[ICRA]A4+ ISSUER NOT COOPERATING*; [ICRA]BB+(Stable) /A4+ ISSUER NOT COOPERATING*;	[ICRA]A3	[ICRA]A3; Withdrawn	[ICRA]A3
5 Unallocated	Long Term/ Short Term	0.80	-	[ICRA]BBB- (Stable)/A3	[ICRA]BB+(Stable) /A4+ ISSUER NOT COOPERATING*;	[ICRA]BBB- (Stable)/A3	[ICRA]BBB- (Positive)/A3; Withdrawn	[ICRA]BBB- (Positive)/A3;

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as “Simple”, “Complex” and “Highly Complex”. The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash Credit (Sublimit)	-	-	-	(5.00)	[ICRA]BBB- (Stable)
NA	Term Loan	FY2017	-	FY2024	16.20	[ICRA]BBB- (Stable)
NA	EPC/PCFC	-	-	-	40.00	[ICRA]A3
NA	Non-fund based limits	-	-	-	3.00	[ICRA]A3
NA	Unallocated	-	-	-	0.80	[ICRA]BBB-(Stable)/A3

Source: Hical Technologies Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Associate		
Yagachi Technologies Private Limited	29.54%	Full Consolidation
Joint Venture		
Hical NSE Electronics Private Limited	51.0%	Full Consolidation

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