

November 17, 2020

Hical Technologies Private Limited: Ratings reaffirmed

Summary of rating action

Instruments [^]	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Term Loan	16.20	16.20	[ICRA]BBB- (Stable); Reaffirmed
Long Term-Cash Credit (Sublimit)	(5.00)	(5.00)	[ICRA]BBB- (Stable); Reaffirmed
Short Term-EPC/PCFC	40.00	40.00	[ICRA]A3; Reaffirmed
Short Term – Non-fund based limits	3.00	3.00	[ICRA]A3; Reaffirmed
Long Term/Short Term-Unallocated	0.80	0.80	[ICRA]BBB-(Stable)/[ICRA]A3; Reaffirmed
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 the companies.

The ratings reaffirmation favourably factors in the healthy growth in operating income (OI) of the Hical Group to Rs. 173.34 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's revenues decreased by 32% to Rs. 52.4 crore in H1 FY2021 compared to Rs. 77.0 crore in H1 FY2020 with slow order execution from the aerospace segment, the impact on its 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 segments, the impact on FY2021 revenues and margins is expected to be lower. The ratings also consider the Group's diversified product profile with presence in the aerospace, automotive and industrial segments and its renowned international client base diversified across geographies.

The ratings, however, are constrained by the high concentration of revenues with the aerospace segment contributing to more than 60% of revenue during the past five years and high customer concentration with top five customers accounting for 59.3% of revenue in FY2020. The ratings are also constrained by its high working capital intensity at 36.9% in FY2020 due to high inventory holding with the company required to import electronic components having large lead time and minimum order quantity. With sizeable debt-funded capital expenditure undertaken by the company during the last three years, its gearing had increased to 1.15 times as on March 31, 2020. The debt coverage indicators are moderate with interest cover of 4.2 times, Debt/OPBDITA of 3.16 times in FY2020.

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

Key rating drivers and their description

Credit strengths

Diverse product segments across aerospace, automotive and industrial segments – HTPL has an established track record in manufacturing electromagnetic components such as transformers (planar, helical, toroid, foil wound and hybrid), inductors, solenoids, and motors catering to the aerospace, defence and industrial verticals. The Group also manufactures inner ball joints and outer ball joints catering to the automotive segment under YTPL.

Reputed client base – The Hical Group's customer profile consists of global aerospace majors such as Hamilton Sundstrand Corporation, Goodrich Aerospace Services Pvt. Ltd, Thales Solutions Asia Pte Limited, ScioTek 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 STMicroelectronics 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, it caters to Mando Automotive India Private Limited.

Credit challenges

High concentration of revenues from aerospace segment – The aerospace vertical is the mainstay for the Hical Group contributing to more than 60% of the revenues during the past five years. As a result, the Group is exposed to any cyclicity or downturns in the industry as witnessed in H1 FY2021. However, the Group's diversification into industrial and automotive segment is expected to mitigate the risk to an extent.

High customer concentration – The customer concentration continued to be high in FY2020, with the top five customers accounting for 59.3% of the Hical Group's revenues. The Group has added new customers such as 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 Group's capital structure remained moderate with a gearing of 1.2 times as on March 31, 2020. The gearing increased over the years owing to sizeable debt-funded capital expenditure undertaken by the Group. Its coverage indicators declined in FY2020 and remained moderate as indicated by total debt/OPBITDA of 3.2 times and interest cover of 4.2 times in FY2020.

High working capital-intensive nature of operations – HTPL's working capital intensity remained high with NWC/OI of 36.9% as on March 31, 2020, as it is required to maintain three to four 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.

Liquidity position: Adequate

The Hical Group's liquidity remains **adequate** with sufficient undrawn working capital limits. The average fund-based utilisation from August 2019 to September 2020 stood at 82.8% for HTPL and 39.4% for YTPL. The 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. Moreover, 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

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 such as transformers, inductors, solenoids, motors, electromagnetic assemblies and provides advanced integration and engineering services to the leading aerospace, railways, auto, medical and speciality industrial customers across the world.

Yagachi Technologies Private Limited, established in 2008 manufactures electromagnetics, electronic assemblies and plastic moulding 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	173.3
PAT (Rs. crore)	8.6	6.6
OPBDIT/ OI (%)	14.9%	11.0%
RoCE (%)	18.8%	10.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	1.8
Total Debt/ OPBDIT (times)	2.6	3.2
Interest Coverage (times)	4.2	4.2

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years

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

ANALYST CONTACTS

Mr. K Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

R Srinivasan

+91 44 45964315

r.srinivasan@icraindia.com

Mr. Vinay Kumar G

+91 40 4067 6533

vinay.g@icraindia.com

Mr. Harish Suresh

+91 80 4922 5555

harish.s@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

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