

May 31, 2019

## Sundaram Hydraulics Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT Fund based CC	4.00	4.00	[ICRA]BBB-(Stable); Reaffirmed
LT Fund based TL	21.00	21.00	[ICRA]BBB-(Stable); Reaffirmed
LT Fund based TL proposed	5.00	5.00	[ICRA]BBB-(Stable); Reaffirmed
ST Fund based	3.00	3.00	[ICRA]A3; Reaffirmed
<b>Total</b>	<b>33.00</b>	<b>33.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of ratings favourably factors in the strong parentage, being part of the T. S. Santhanam arm of the TVS Group of companies, hands on management by the promoter Mr. Srivats Ram and operational and financial support extended by Wheels India Limited ([ICRA]A+(Stable)/[ICRA]A1+/MA+(Stable). The company has received financial support from its promoters; SHL's share capital has increased from Rs.0.5 crore in FY2007 (when the company was incorporated) to Rs. 41 crore in FY2019 with periodic infusion of equity by promoters to support the capital expenditure and loss funding. The latest equity infusion of Rs.5 crore happened in FY2019 to redeem the preference shares issued to Sundaram Finance Holdings Limited. SHL also receives operational support in the form of extended credit period to aid its working capital, given the weak accruals over the last several years. The promoters remain committed in the business and would extend further support, as and when required.

The reaffirmation of ratings favourably factors in the strong parentage, being part of the TVS Group of companies, and hands on management by the promoter Mr. Srivats Ram, with the support of loans to fund capex plans. The ratings also favourably factor the equity infusion by the promoter's family in FY2019 to redeem the 9% cumulative redeemable preference shares held by Sundaram Finance Holdings Limited. Further working capital support from its parent company, Wheels India Limited (WIL) in the form of extended credit periods, and faster receivables has provided the company with adequate liquidity. The ratings also consider the healthy order book of the company from its existing and new customer for FY2020 in addition to its established customer profile. While the incumbent market leader in the hydraulic cylinders space for mining and construction equipment (MCE) Wipro Enterprises Limited is a strong competitor, over the years SHL has entered marquee clients like Action Construction Equipment (ACE), Escorts Limited (Escorts) and CATERPILLAR, among others.

However, the ratings are constrained by SHL's weak credit profile with accumulated losses, stretched gearing and coverage metrics and thin margins. Focus on high margin products like axle shafts and scaling up operations are expected to improve the margins, gearing and coverage ratios. The ratings are also constrained by the limited pricing flexibility with margins being vulnerable to input costs, which are determined by steel prices. The ratings are also constrained by the cyclical nature of the MCE industry and strong correlation of SHL's credit profile to industry demand.

## Outlook: Stable

ICRA expects that SHL to be able to undertake timely scale up of capacity to meet its strong order book. The outlook may be revised to 'Positive' if SHL is able to scale up its margins to improve its leverage and coverage indicators and improve its credit profile. The outlook may be revised to 'Negative' if there is any delay in the execution of capital expansion plans such that orders are not executed, or the company is not able to achieve net breakeven in FY2020.

## Key rating drivers

### Credit strength

**Strong parentage and promoter support:** SHL receive significant support from being associated with the T. S. Santhanam arm of the TVS Group of companies with flexibility in working capital for sales made through WIL and the procurement routed from the centralised procurement department of WIL (in the form of elongated creditor days during procurement and faster receivable days for sales made through WIL). SHL's share capital has increased from Rs.0.5 crore in FY2007 (when the company was incorporated) to Rs. 41 crore in FY2019 with periodic infusion of equity by promoters to support the capital expenditure and loss funding.

**Established customer profile leading to stability of orders and lesser counter-party credit risk:** SHL's key customers in the MCE and Material Handling segment are ACE, Bull Machines Private Limited, Escorts, Indo Farm Equipments Limited for backhoes and pick and carry cranes; Fluitechnik S.A. for windmill pitch cylinders; and CATERPILLAR for axle shafts. Such marquee clients ensure stability of orders and low counter-party credit risk. Foray into newer product segments like axle shafts and cylinders for the renewables sector have helped diversify the customer profile.

**Healthy order book for FY2020 to drive top line and margins:** SHL's revenues have improved from Rs.14 crore (FY2014) to Rs.53 crore (FY2019) supported by the healthy orders backed by the company from existing customers and addition of new customers. SHL has a healthy order book of Rs. 101 crore to be executed over FY2020 and H1 FY2021 from its existing clients for backhoes and PNC cranes as well as new clients for specialised excavator cylinders, cylinders for renewables sector, and axle shafts. This is expected to drive both the topline and margins going forward.

### Credit challenges

**Weak financial profile in FY2019:** The company has been incurring net losses since its inception in 2007 due to inadequate volume ramp up; for FY2019, the company reported a net loss of Rs. 4.1 crore. SHL has stretched capital structure and coverage metrics due to the relatively low networth because of accumulated losses and relatively high debt levels for the scale. SHL's TD/TNW stood at 6.0 times as on March 31, 2019 while its TD/OPBITDA stood at 5.8 times for FY2019. ICRA expects SHL's debt metrics to improve gradually over the medium term, given the anticipated net turnaround in FY2020 and the fact that the company does not have major capex plans going forward.

**SHL is a small player; market characterised by high competitive intensity with a strong incumbent:** The hydraulic cylinder industry for MCE is characterised by strong incumbents like Wipro Infrastructure Engineering, which is the oldest player in this industry in India with a dominant market share in all large MCE OEMs. The other notable players are Dantal Hydraulics Limited (Dantal), SHL and Dongyang Construction India Private Limited. L&T also has a hydraulic plant for MCE (conversion of erstwhile L&T Komatsu Plant in Bangalore). The industry witnesses some import of hydraulic cylinders as well. Being a high technology and safety critical product, technology expertise and delivery quality and history are key requirements for ancillaries for winning new orders.

**Revenues susceptible to the cyclicity of the MCE industry:** SHL's revenues are vulnerable to the inherent cyclicity of the MCE industry. However, while a modest industry growth of 4-5% (check this once) is expected in FY2020, SHL's strong orderbook, as mentioned above, is likely to result in healthy revenue growth for the company in FY2020.

### Liquidity Position:

SHL's standalone liquidity remains stretched due to the continuous net losses and relatively high debt levels. Although the company has negligible capex plans over the next few years, its repayments obligations are sizeable compared to anticipated accruals, at Rs. 4-5 crore per year over the next three years. However, ICRA draws comfort from the fact that promoters remain committed to the business and would continue to provide financial and operational support to the company till such time it requires the same. SHL's share capital has increased from Rs.0.5 crore in FY2007 (when the company was incorporated) to Rs. 41 crore in FY2019 with periodic infusion of equity by promoters to support the capital expenditure and loss funding.

### Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Construction Equipment Manufacturers</a>
Parent/Group Support	The ratings draw comfort from the financial linkages with Sundaram Finance Holdings Limited. Sundaram Finance Holdings Limited provides timely fund infusion to support the financial requirements of the company.
Consolidation / Standalone	Standalone

### About the company:

Incorporated in December 2007, SHL is a part of the T. S. Santhanam arm of the TVS Group promoted by WIL, ([ICRA]A+(Stable)/[ICRA]A1+/MA+(Stable)), Sundaram Finance Holdings Limited and the promoter of WIL, Mr. Srivats Ram and his family.

SHL is engaged in manufacturing of hydraulic cylinders for the MCE industry. SHL's manufacturing facility in Sriperumbudur (within WIL's factory premises) has an installed production capacity of ~66,000 cylinders per annum. The hydraulic cylinders manufactured by SHL are currently supplied to material handling equipment companies. SHL also supplies tools, components for air suspension devices and undertakes job work for its parent, WIL. The company recently diversified manufacturing of higher margin axle shafts for CATERPILLAR India (dump trucks) and cylinders for windmills and solar panels, along with the sub-contracting of excavator cylinders for a Korean company SH PAC Co. Ltd. The cylinders for windmills and solar panels are exported and these sales together with some domestic sales are routed through WIL. This supports SHL's working capital cycle.

During FY2019, the company reported a net loss of Rs.4.1 crore on an operating income of Rs. 53.3 crore, as compared to a net loss of Rs.0.2 crore on an operating income of Rs.45.7 crore in the previous year.

### Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	53.3	45.7
PAT (Rs. crore)	-0.2	-4.1
OPBDIT/OI (%)	11.2%	8.1%
RoCE (%)	9.0%	7.1%
Total Debt/TNW (times)	9.1	6.0
Total Debt/OPBDIT (times)	6.0	5.8
Interest coverage (times)	1.7	1.5

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

### Any other information: None

### Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating May 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1. Bank Lines	LT – Fund based CC	4.00	NA	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable) Suspended
2. Bank Lines	LT Fund based TL	21.00	21.00	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable) Suspended
3. Bank Lines	LT Fund based proposed	5.00	NA	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	[ICRA]BB+ (Stable) Suspended
4. Bank Lines	ST Fund based	3.00	NA	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A4+ Suspended

### 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](http://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	Bank Lines: Cash Credit	NA	NA	NA	4.00	[ICRA]BBB-(Stable)
NA	Bank Lines: Term Loan	FY2018	NA	FY2023	13.28	[ICRA]BBB-(Stable)
NA	Bank Lines: Term Loan	FY2015	NA	FY2023	7.72	[ICRA]BBB-(Stable)

---

NA	Bank Lines: Term Loan proposed	NA	NA	NA	5.00	[ICRA]BBB-(Stable)
NA	Bank Lines: Bill Discounting	NA	NA	NA	3.00	[ICRA]A3

Source: Sundaram Hydraulics Limited

## ANALYST CONTACTS

**Subrata Ray**

+91 22 6114 3408

[subrata@icraindia.com](mailto:subrata@icraindia.com)

**Pavethra Ponniah**

+91 44 4596 4314

[pavethrap@icraindia.com](mailto:pavethrap@icraindia.com)

**Ganapathy.R**

+91 44 4297 4316

[ganapathy.r@icraindia.com](mailto:ganapathy.r@icraindia.com)

**V.S.Ranganathan**

+91 44 4297 4305

[v.ranganathan@icraindia.com](mailto:v.ranganathan@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

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

[info@icraindia.com](mailto: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](http://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](mailto:info@icraindia.com)

Website: [www.icra.in](http://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

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

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](http://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