

Dynamatic Technologies Limited

December 26, 2018

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore) ¹	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	369.00	369.00	[ICRA]BBB+ (Stable); reaffirmed
Proposed Limits	0.01	0.01	[ICRA]BBB+ (Stable); reaffirmed
Fund-based Limits	145.00	145.00	[ICRA]BBB+ (Stable); reaffirmed
Non-fund based limits – Sub limit (50.00)	(50.00)	(50.00)	[ICRA]A2; reaffirmed
Non-fund based limits	23.00	23.00	[ICRA]A2; reaffirmed
Total	537.01	537.01	

*Instrument details in Annexure - I

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) outstanding on the Rs.369.00 crore term loans, the Rs.145.00 crore long-term fund-based limits and Rs.0.01 crore proposed limits of Dynamatic Technologies Limited (DTL / the company)². ICRA has also reaffirmed the short-term rating of [ICRA]A2 (pronounced ICRA A two) outstanding on the Rs.23.00 crore short-term non fund-based facilities and the Rs.50.00 crore short term non fund-based facilities (sublimit) of DTL. The outlook on the long-term rating is Stable.

Rationale

In arriving at the ratings, ICRA has taken a consolidated view of the Dynamatic Group (comprising of DTL and its subsidiaries) considering the common management team and the presence of strong operational and financial linkages among the entities.

The ratings continue to factor in DTL's strong market position, diversified business profile and established relationships with renowned customers across industries (automotive, hydraulics and aerospace), and strong technological capabilities across geographies (India, UK and Germany) supporting its business prospects. DTL's strong order book position and its tier-1 and sole supplier status with major OEMs like Airbus and Boeing under the relatively margin-accretive aerospace segment, further underpin the ratings. The ratings also factor in revival in the company's margins over the last three quarters supported by ramp up in supplies to Airbus and healthy performance of the company under its hydraulics segment following weak performance during 9m FY2018. ICRA also notes that the company has recently completed the sale of its loss-making aluminium automotive business in India and the same is likely to support improvement in operating margins and debt metrics (proceeds from the sale are expected to be used towards term loan repayments) going forward. The ratings, however, remain constrained by the company's moderately stretched coverage metrics (TD/OPBDITA of 4.2x as on September 30, 2018 and interest coverage ratio of 2.2x during H1 FY2019) and high working capital utilization (96.8% for the 12-month period ending November 2018) as compared to the current rating category. ICRA expects the sale of the company's windfarm spread over 445 acres in Coimbatore to reduce the debt significantly

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definition, refer ICRA's website (www.icra.in) or other ICRA rating publications

and improve the company's debt metrics and liquidity position over the next 12-18 months. The ratings also continue to factor susceptibility of the company's revenues and margins to cyclicalities in the end user industries, commodity price movements and forex fluctuations.

Outlook: Stable

ICRA believes that DTL's focused efforts towards realigning its product portfolio under its automotive segment, healthy and margin-accretive order book position under its aerospace segment coupled with stable demand outlook for the hydraulics industry are expected to support the company's operating accruals. That said, DTL's profit margins remain susceptible to the vagaries of commodity price cycles and forex rates. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability strengthen the financial risk profile and debt metrics of the company. The outlook may be revised to 'Negative' if cash accruals are lower than expected, or if debt-funded capital expenditure affects the company's margins, debt metrics and liquidity position.

Key rating drivers

Credit Strengths

- **Reputed clientele across divisions:** The company has strong and established relationships with clients in hydraulics, automotive and aerospace verticals namely John Deere, Mahindra & Mahindra, Audi, BMW, Daimler, Ford, Airbus, Boeing etc. DTL enjoys single source supplier and healthy wallet share status with majority of its clients
- **Strong order book position:** DTL's strong order book position in its relatively margin-accretive aerospace segment is expected to support the company's revenue growth and margins in addition to insulating its revenues against cyclicalities in other segments.
- **Improving segment mix:** While the company's auto division contributed to 59% of the company's margins in FY2017, the same in FY2018 stood at 52%. This coupled with increasing share of revenues from high margin aerospace segment is expected to support DTL's expansion in profit margins and thereby lead to improvement in financial profile of the company going forward
- **Divestment of non-core assets expected to result in improvement in debt metrics:** The recent sale of DTL's loss-making aluminium automotive business (which was a drag on overall profits of the company) is expected to reduce the company's term loans immediately by Rs.36 crore followed by reduction in working capital debt to the extent of Rs.15-20 crore over the next 2-3 months. Further, ICRA expects the sale of the company's windfarm spread over 445 acres in Coimbatore to reduce the debt significantly and improve the company's debt metrics and liquidity position over the next 12-18 months.

Credit Weaknesses

- **Weak debt metrics:** DTL's financial profile continues to be characterized by weak debt metrics gearing of 2.1x and TD/OPBDITA of 4.2x as on September 30, 2018 and interest coverage ratio of 2.2x during H1 FY2019. Going forward, as the operating margins improve, and debt is repaid (supported by inflows from divestment of non-core assets and absence of any major capex plans on the anvil), we expect the company's debt metrics to improve.
- **High working capital utilization levels:** DTL's average working capital utilization over the last 12-month period has been 96.8% of the company's limits primarily on account of delay in GST refunds in its aerospace business and increase in inventory levels given ramp up in its aerospace deliveries. This has impacted the company's liquidity

position and debt protection metrics. However, the company has now applied for conversion of the new aerospace facility in Bangalore to EoU to solve the GST-related issues and support its liquidity position going forward.

- **Prone to seasonality and cyclicalities in its revenues:** DTL's revenues in the automotive and hydraulic segments (69.9% of revenues during H1 FY2019) continue to remain exposed to cyclicalities in the respective industries.
- **High exposure to foreign currency rates and commodity price cycles:** DTL's profit margins remain susceptible to the vagaries of forex rates with substantial amount of revenues being derived from export markets; further, the company's profits also remain susceptible to commodity price cycles in the absence of an immediate pass-through clause to its customers.

Liquidity Position:

The company's current liquidity position is stretched given full utilization of its working capital limits over the past few months owing to delay in GST refunds (pertaining to exports under the aero division). However, the company has now applied for change in status of the new aerospace facility in Bangalore to EoU to solve the GST-related issues and ease the working capital situation. The company does not have any undrawn lines of credit as it does not have any major capital expenditure plans over the next 2-3 years. In terms of cash balances, while the company had cash balances of Rs.62.6 crore as on March 31, 2018, the same has declined to Rs.39.2 crore as on September 30, 2018. Going forward, once the GST refund process is expedited, we expect the company's working capital utilization to reduce supporting the overall liquidity position of the company.

While the company has repayments of Rs.34.4 crore during FY2019, the company is also expected to pre-pay Rs.36 crore in addition to the same by end of Q3 FY2019. The prepayments will be funded from proceeds of the recently concluded sale of the aluminium business under DTL's automotive division. The consideration from the buyer is expected to be received before December 2018 end and the same would be immediately used for prepayment of debt by the company post which the company would not be having any repayments falling due till October 2020.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA's rating methodology for auto component manufacturers
Parent/Group Support	NA
Consolidation / Standalone	The rating is based on consolidated financial statements of the company

About the company:

Incorporated in 1973, initially as Dynamatic Hydraulics Limited, DTL is primarily engaged in manufacturing of precision components for agriculture, automobile, construction; aerospace and defense sectors. DTL manufactures hydraulic equipments (primarily hydraulic gear pumps), fluid systems and specialized engineering products mainly catering to agriculture and construction equipment sectors. The company is also engaged in the manufacturing of critical engine and transmission components in automotive space and has an integrated aerospace facility with capabilities to manufacture CNC components, sheet metal components, soft tooling, hard tooling and jig manufacturing etc. Besides these major divisions, the company has a ferrous foundry which produces castings for in-house consumption by the other divisions and also supplies castings to external customers. The company had recently divested part of its automotive business in India to Hi-Tech Arai Private Limited. The company also owns a 12MW wind farm in Coimbatore, Tamil Nadu which is expected to be liquidated over the next 12-18 months.

Over the years, DTL has adopted an inorganic route for achieving scale / competence under each of its divisions. In June 2007, the company acquired the Swindon unit (the Hydraulic division) of Sauer Danfoss Ltd. U.K, which caters to off-highway and special purpose on-highway mobile equipment markets supplying gear pumps, gear motors and associated products. This unit caters to the European and US markets. Similarly, in 2008-09, DTL acquired UK based aerospace components manufacturing company – Oldland CNC Limited – which was subsequently merged with the Company’s hydraulics division. The latest among DTL’s acquisitions has been the Germany based Eisenwerk Erla GmbH during FY2012 (foundry). The promoters of the company held 50.2% shares in the company while the balance was held by public as on September 30, 2018.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1,506.1	1,399.7
PAT (Rs. crore)	19.6	0.7
OPBDIT/ OI (%)	11.2%	10.1%
RoCE (%)	12.8%	8.3%
Total Debt/ TNW (times)	2.3	2.3
Total Debt/ OPBDIT (times)	4.0	5.0
Interest coverage (times)	2.1	1.8

Source: Company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years					
Instrument	Type	Amount Rated (Rs.crore)	Amount Outstanding as on March 31, 2018 (Rs Crore)	Date & Rating Dec 2018	Date & Rating in FY2018		Date & Rating in FY2017		Date & Rating in FY2016	
					Mar 2018	June 2017	Oct 2016	Sep 2016	Apr 2015	
1 Term Loans	Long Term	369.00	365.4	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
2 Fund based facilities	Long Term	145.00	165.4	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
3 Proposed facilities	Long Term	0.01	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	-	
4 Non fund based facilities	Short Term	23.00	22.7	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	
5 Non fund based facilities – Sub limit	Short Term	(50.00)	NA	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	-	

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

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term Loans	FY2017	NA	FY2027	369.00	[ICRA]BBB+ (Stable)
Fund based facilities	FY2018	NA	-	145.00	[ICRA]BBB+ (Stable)
Proposed facilities	NA	NA	-	0.01	[ICRA]BBB+ (Stable)
Non fund based facilities	FY2018	NA	-	23.00	[ICRA]A2
Non fund based facilities – Sub limit				(50.00)	[ICRA]A2

Source: Dynamatic Technologies Limited

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About ICRA Limited:

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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.

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