

Rating Rationale

May 19, 2022 | Mumbai

Hind Rectifiers Limited

Rating outlook revised to 'Positive'; Ratings reaffirmed

Rating Action

| | |
|----------------------------------|----------------------------------------------------------------------------|
| Total Bank Loan Facilities Rated | Rs.120 Crore |
| Long Term Rating | CRISIL BBB-/Positive (Outlook revised from 'Stable' and rating reaffirmed) |
| Short Term Rating | CRISIL A3 (Reaffirmed) |

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long-term bank facilities of Hind Rectifiers Limited (HRL) to '**Positive**' from '**Stable**', while reaffirming the rating at '**CRISIL BBB-**'; the short-term rating has been reaffirmed at '**CRISIL A3**'.

The outlook revision reflects expectation of sustained improvement in business risk profile with increase in revenue to around Rs 372 crore in fiscal 2022 from Rs 305 crore in 2021 and is expected to increase further on back of new product introduction and healthy order book of Rs 398 crore as of April 2022. While operating margins are expected to remain in range of 6.5-7%, any major impact of raw material price increase will remain monitorable. Working capital cycle is estimated to have reduced to around 160 days as on March 31, 2022, sustenance of same will also be monitored. Financial profile is expected to continue to remain healthy marked by networth and total outside liabilities to adjusted networth of Rs. 93 crore and 1.4 times for fiscal 2022. It is expected to remain stable over the medium term backed by steady accretion to reserves. Debt protection metrics have also improved as reflected in interest coverage and net cash accruals to adjusted debt ratio of around 3.4 and 0.2 times for fiscal 2022. It is further expected to improve with increase in scale of operations and operating margins over the medium term. While liquidity is also adequate marked by moderate bank limit utilization and sufficient cash accruals against repayment obligations and is further expected to improve over the medium term.

The ratings continue to reflect the extensive experience of the promoters of HRL in the power electronic equipment industry, strong order book providing revenue visibility, healthy financial risk profile. These strengths are partially offset by end-user industry concentration in revenue and tender-based operations volatile operating margins and large working capital requirements.

Key Rating Drivers & Detailed Description

Strengths:

- Extensive experience of the promoters:** Benefits from the promoter experience of over five decades, their in-depth understanding of market dynamics, development of new products in keeping with changing market demands, and strong relationships with customers and suppliers should continue to support the business. Clientele includes Indian Railways and Bharat Heavy Electricals Ltd. This can be reflected in increase in revenues to Rs. 372.5 crore in fiscal 2022 from Rs. 305 crore in fiscal 2021. The revenues are further expected to increase over the medium term with introduction of new products and healthy order book as on April 2022.
- Strong order pipeline:** Orders of more than Rs 398 crore, to be executed in the next 18 months, provide near-term revenue visibility and will help sustain revenue. The steady order flow is driven by continuous development of new products and addition of customers.
- Healthy financial risk profile:** Networth is estimated to be large at Rs 93 crore and total outside liabilities to adjusted networth ratio moderate at 1.5 times, estimated as on March 31, 2022, due to better networth and stable debt levels. Capital structure is expected to improve further over the medium term with steady accretion to reserves. Debt protection metrics were comfortable, with interest coverage and net cash accrual to adjusted debt ratios of around 3.4 times and 0.13 times, respectively, estimated for fiscal 2022. The metrics are expected to improve further with increase in scale of operations and operating margin over the medium term.

Weaknesses:

- Industry concentration in revenue and tender based operations:** The Railways account for 70-80% of revenue, which exposes growth in HRL's revenue and profitability to the prospects of this industry. Any slowdown in industry or stretch in receivables may impinge upon the performance of the company. Further, since majority of the revenue is tender-based, income and profitability depend on the ability of the company to bid successfully for contracts floated by the Railways and other government agencies.
- Volatile operating margins:** Operating margins have remained volatile in the range of 6-8% for the past few fiscal years (except in fiscal 2020 when the company received a one-time high-margin order). This is due to varied product mix as well as volatility in raw material which includes oil, copper, semiconductors and various other electrical components. However, the company has levied price escalation clauses for 70% of their orders. Hence operating margins are expected to remain in the range of 6.5-7% and would continue to remain a key monitorable over the medium term.
- Large working capital cycle:** Working capital intensity is reflected in estimated gross current assets (GCAs) of around 160 days as on March 31, 2022, from 206 days a year ago. This was driven by receivables improving to around 68 days from 112 days, due to quicker payment from customers. Inventory moderated to around 77 days from 93 days on account of reduced lead time to procure materials. Sustenance of this improvement over the medium term will be key monitorable.

Liquidity: Adequate

Cash accrual, expected at Rs 16-18.5 crore annually, should comfortably cover yearly debt obligation of Rs 7.5-9 crore, over the medium term. Bank limit was utilised at an average of 59% over the 12 months through February 2022. Cash and bank balance stood at Rs 1.6 crore as on March 31, 2021, while current ratio was 1.4 times. Internal cash accrual, unutilised bank limit, and cash and bank balance are likely to be sufficient to meet incremental working capital requirement and debt repayment over the medium term.

Outlook: Positive

CRISIL Ratings believes HRL's business profile will improve with increase in scale of operations through introduction of new products and healthy order book while sustaining operating margins

Rating Sensitivity factors**Upward factors**

- Increase in revenue and steady profitability above 6.5%, leading to higher cash accruals
- Sustained working capital cycle (GCAs below 160 days) strengthening financial risk profile

Downward factors

- Decline in revenue on account of delays in order execution or fall in operating margin to less than 6%, leading to lower-than-anticipated cash accrual
- Stretch in working capital cycle (GCAs above 200 days) weakening financial risk profile

About the Company

Incorporated in April 1958, HRL was promoted by the late Mr S K Nevatia and is currently managed by Mr Saurabh Nevatia and Mr Suramya Nevatia. The company manufactures power electronic equipment such as traction transformers for locomotives and electrical multiple units, converters, rectifiers, power semiconductors and railway transportation equipment such as switch board cabinets, regulated battery chargers and inverters. Facilities are in Mumbai, Nashik (both in Maharashtra) and Dehradun (Uttarakhand). The company is listed on the Bombay and National Stock Exchanges.

Key Financial Indicators

| Particulars | Unit | YTD Dec 2021 | 2021 | 2020 |
|--------------------------------|----------|--------------|--------|--------|
| Revenue | Rs crore | 269.76 | 305.10 | 299.62 |
| PAT | Rs crore | 6.23 | 5.33 | 18.48 |
| PAT margin | % | 2.31 | 1.75 | 6.2 |
| Adjusted debt/adjusted network | Times | - | 1.01 | 1.09 |
| Interest coverage | Times | 3.36 | 2.20 | 4.86 |

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

| ISIN | Name of instrument | Date of allotment | Coupon rate (%) | Maturity date | Issue size (Rs crore) | Complexity levels | Rating assigned with outlook |
|------|--------------------|-------------------|-----------------|---------------|-----------------------|-------------------|------------------------------|
| NA | Bank Guarantee | NA | NA | NA | 22 | NA | CRISIL A3 |
| NA | Cash Credit | NA | NA | NA | 83.5 | NA | CRISIL BBB-/Positive |
| NA | Overdraft facility | NA | NA | NA | 3.5 | NA | CRISIL BBB-/Positive |
| NA | Term Loan | NA | NA | Jun-26 | 5 | NA | CRISIL BBB-/Positive |
| NA | Term Loan | NA | NA | Jun-26 | 6 | NA | CRISIL BBB-/Positive |

Annexure - Rating History for last 3 Years

| Instrument | Current | | | 2022 (History) | | 2021 | | 2020 | | 2019 | | Start of 2019 |
|---------------------------|---------|--------------------|----------------------|----------------|--------|----------|--------------------|----------|----------------------|----------|--------------------|-------------------|
| | Type | Outstanding Amount | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating | Rating |
| Fund Based Facilities | LT | 98.0 | CRISIL BBB-/Positive | | -- | 28-05-21 | CRISIL BBB-/Stable | 10-02-20 | CRISIL BBB-/Positive | 08-07-19 | CRISIL BBB-/Stable | CRISIL BB+/Stable |
| | | | -- | | -- | | -- | 05-02-20 | CRISIL BBB-/Positive | | -- | -- |
| Non-Fund Based Facilities | ST | 22.0 | CRISIL A3 | | -- | 28-05-21 | CRISIL A3 | 10-02-20 | CRISIL A3 | 08-07-19 | CRISIL A3 | CRISIL A4+ |
| | | | -- | | -- | | -- | 05-02-20 | CRISIL A3 | | -- | -- |

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

| Facility | Amount (Rs.Crore) | Name of Lender | Rating |
|--------------------|-------------------|---------------------------------|----------------------|
| Bank Guarantee | 5 | TJSB Sahakari Bank Limited | CRISIL A3 |
| Bank Guarantee | 7 | ICICI Bank Limited | CRISIL A3 |
| Bank Guarantee | 10 | Standard Chartered Bank Limited | CRISIL A3 |
| Cash Credit | 31.5 | TJSB Sahakari Bank Limited | CRISIL BBB-/Positive |
| Cash Credit | 17.9 | ICICI Bank Limited | CRISIL BBB-/Positive |
| Cash Credit | 27 | Standard Chartered Bank Limited | CRISIL BBB-/Positive |
| Cash Credit | 7.1 | IDFC Limited | CRISIL BBB-/Positive |
| Overdraft Facility | 3.5 | Standard Chartered Bank Limited | CRISIL BBB-/Positive |
| Term Loan | 5 | Apna Sahakari Bank Limited | CRISIL BBB-/Positive |
| Term Loan | 6 | IDFC Limited | CRISIL BBB-/Positive |

This Annexure has been updated on 19-May-2022 in line with the lender-wise facility details as on 06-May-2022 received from the rated entity.

Criteria Details

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|------------------------------------------------------------------------------------|
| Links to related criteria |
| Rating criteria for manufacturing and service sector companies |
| CRISILs Approach to Financial Ratios |
| CRISILs Bank Loan Ratings - process, scale and default recognition |
| The Rating Process |
| Understanding CRISILs Ratings and Rating Scales |
| CRISILs Bank Loan Ratings |
| Rating Criteria for Engineering Sector |
| Understanding CRISILs Ratings and Rating Scales |

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