

Rating Rationale

September 11, 2019 | Mumbai

The Hi-Tech Gears Limited

Rating Action

Total Bank Loan Facilities Rated	Rs.150 Crore
Long Term Rating	CRISIL BBB+/Stable

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL rating on the bank facilities of The Hi-Tech Gears Limited (THGL; part of the Hi-Tech group) continues to reflect the promoters' established presence in the auto component manufacturing industry and healthy relations with reputed original equipment manufacturers (OEMs). The rating also factors in the company's comfortable financial risk profile. These strengths are partially offset by declining operating profitability and moderate scale of operations of subsidiaries.

On Sep 10, 2019, CRISIL had assigned its 'CRISIL BBB+/Stable' rating to the long-term bank facilities of The Hi-Tech Gears Ltd (THGL; part of the Hi-Tech group).

Analytical Approach

'2545887 Ontario Inc. Canada' has various step-down subsidiaries and is itself a wholly owned subsidiary of THGL. Hence, CRISIL has taken a consolidated approach with regard to all these companies, together referred to as 'the Hi-tech group' due to parent and subsidiary relationship and common promoters.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation

Key Rating Drivers & Detailed Description

Strengths:

*** Promoters' established presence and relations with reputed OEMs:** The three-decade-long experience of the promoters in the auto component manufacturing industry has resulted in healthy relations with reputed OEMs, such as Hero MotoCorp Ltd (HMCL), JCB, and Daimler AG. Furthermore, diversification into international territories (through acquisition of foreign subsidiaries) should also help mitigate the risk of geographical concentration and ongoing slowdown in the domestic automobile industry.

*** Comfortable financial risk profile:** Financial risk profile is comfortable: networth is estimated at Rs 265 crore and gearing at 1.6 times as on March 31, 2019. Moreover, despite increase in interest cost (due to additional debt), interest coverage remained strong at around 4 times in fiscal 2019, supported by healthy accrual. In the wake of no sizeable debt funded capex, financial risk profile should remain comfortable over the medium term.

Weaknesses

*** Declining operating profitability:** Surge in raw material and employee cost over the past couple of years has led to weakening of operating profitability; the same declined from 13.9% in 2018 to 12.4 in 2019 and 11.3% in 2020 (April-June). Going forward, prevailing industry pressure (*in the Indian automobile industry*) would continue to have a bearing on the operating profitability and improvement in the same will remain a key monitorable.

*** Moderate scale of operations of subsidiaries:** Though scale of subsidiaries improved to Rs 266 crore during 2019 from Rs 220 crore during previous year, it continues to remain moderate, hence, constraining cost efficiencies of hi-tech group. Furthermore, the contribution of the same in the group's revenue subsided to around 29% in 2019 from 29.5% during previous year. Going forward, improved contribution from subsidiaries, leading to an improved business risk profile of the hi-tech group, will remain a key rating sensitivity factor.

Liquidity: Adequate

Liquidity should remain adequate: cash accrual, expected at Rs 45-50 crore each in fiscals 2020 and 2021, should sufficiently cover yearly maturing debt of Rs 20 crore. Bank limit utilisation averaged 65% over the 12 months through March 19. Additionally, current ratio of 1.45 times (as on March 31, 2019) and sizeable reserve by way of cash/bank balance should continue to support liquidity over the medium term.

Outlook: Stable

CRISIL believes the Hi-tech group will maintain its credit risk profile, backed by healthy clientele and comfortable financial

risk profile.

Rating sensitivity factors

Upward factor:

- * Improved revenue and accrual, predominantly driven by incremental growth in subsidiaries' operations
- * Profitability improving by around 200-250 basis points
- * Prudent working capital management, with no sizeable stretch in gross current assets

Downward factor:

- * Deterioration in the subsidiaries performance over the medium term, thereby, impacting the group's revenue and accrual
- * Sizeable debt-funded capital expenditure or stretched working capital cycle deteriorating the capital structure, with gearing exceeding 2 times

About the Company

Incorporated in 1986, THGL is a public limited entity listed on Bombay Stock Exchange as well as National Stock Exchange. Mr Deep Kapuria is the promoter. The company manufactures auto components, particularly transmission gears. The manufacturing facilities are in Bhiwadi and Manesar, both in Rajasthan.

Key Financial Indicators

Particulars	Unit	2019	2018
Revenue	Rs Crore	913.06	751.22
Profit After Tax (PAT)	Rs Crore	28.6	34.24
PAT Margins	%	3.1	4.6
Adjusted Debt/Adjusted Net worth	Times	1.6	1.5
Interest coverage	Times	3.8	5.0

Status of non cooperation with previous CRA:

THGL has not cooperated with India Ratings And Research Private Limited, which has classified it as non-cooperative vide release dated Nov 28, 2018. The reason provided by India Ratings And Research Private Limited is non-furnishing of information for monitoring of ratings.

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 Cr)	Rating Assigned with Outlook
NA	Working Capital Facility	NA	NA	NA	90.5	CRISIL BBB+/Stable
NA	Long Term Loan	NA	NA	Mar-2025	59.5	CRISIL BBB+/Stable

Annexure - List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
The Hi-tech Gears Limited	Full	Common management and similar line of business
2545887 Ontario Inc. Canada	Full	Common management and similar line of business
Tuetech Industries Inc.	Full	Common management and similar line of business
2504584 Ontario Inc.	Full	Common management and similar line of business
Tuetech Holding Corporation	Full	Common management and similar line of business
Tuetech Leasing Corporation	Full	Common management and similar line of business
Tuetech LLC	Full	Common management and similar line of business
2323532 Ontario Inc. Canada	Full	Common management and similar line of business

Annexure - Rating History for last 3 Years

		Current		2019 (History)		2018		2017		2016		Start of 2016
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	150.00	CRISIL BBB+/Stable	10-09-19	CRISIL BBB+/Stable		--		--		--	--
				06-09-19	CRISIL BBB+/Stable							

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Long Term Loan	59.5	CRISIL BBB+/Stable	Long Term Loan	59.5	CRISIL BBB+/Stable
Working Capital Facility	90.5	CRISIL BBB+/Stable	Working Capital Facility	90.5	CRISIL BBB+/Stable
Total	150	--	Total	150	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Criteria for Consolidation](#)

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