



Rating Rationale

12 Aug 2020

Him Teknoforge Ltd.

Brickwork Ratings downgrades the ratings for the Bank Loan Facilities of ₹ 159.17 Crores of Him Teknoforge Ltd. and continues to place it under ‘Rating Watch With Developing Implications’

Particulars

Issue	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Apr 2019)	Present
Fund Based Term Loans Cash Credit	49.67 93.00	49.67 93.00	Long Term	BWR BBB+ (Rating Watch With Developing Implications)	BWR BBB (Rating Watch With Developing Implications) (Downgrade)
Non-fund Based ILC/BG	16.50	16.50	Short Term	BWR A3+ (Rating Watch With Developing Implications)	BWR A3 (Rating Watch With Developing Implications) (Downgrade)
Total	159.17	159.17	Rupees One Hundred Fifty Nine Crores & Seventeen Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

RATING ACTION

While downgrading the ratings for the bank facilities of Him Teknoforge Ltd. (HTL or the company), BWR has factored in the poor quarterly performance of the company in Q4FY20 indicated by a significant decline in the its profit margins, poor DSCR and stretched liquidity position due to tightly matched cash accruals with the maturing long term debt repayments and expectations of significant impact of Covid-19 crisis on the company’s topline in FY21. The company’s Y-o-Y performance also remained poor due to the ongoing challenges in the automobile sector in FY20. However, the revival in demand of the agricultural components & vehicles and exports, both of which contributed to ~50% of company’s revenues cumulatively, has offered some respite. The ratings also continue to derive strength from the comfortable leverage and long operational track record of the company and extensive experience of its promoters in the auto component manufacturing business.

Covid-19 Impact



The company has availed Covid-19 moratorium on principal repayments of its term loans, as per the regulatory guidelines. It has also availed Rs 9 Crores of Term Loan under the Emergency Credit Line Guarantee Scheme of the Central government to support its liquidity in the short to medium term. Covid-19 has impacted the sales of the company as the plant was shut down during the nationwide lockdown announced by the Government of India for an approximate period of 45 days.

OUTLOOK: RATING WATCH WITH DEVELOPING IMPLICATIONS

The outlook of the rating continues to remain under watch with developing implications due to the fact that the promoter's civil writ petition against the IFCI Venture Capital Fund, restraining the latter from exercising its right to invoke the pledged shares of promoters is subjudice before the Punjab & Haryana High Court. An adverse outcome of this petition may reduce the promoters shareholding of the company which may pose significant management risk. The rating outlook may be revised to Stable in case the decision of the court comes in favor of the promoters.

Key Rating Drivers

Credit Strengths:

- **Comfortable leverage & Interest Coverage ratios:** The company has a moderate net worth of Rs 135.72 Crs in FY20 which has led to a comfortable Debt:Equity ratio of 0.96x in FY20 as compared to that of 0.94x in FY19. The TOL:TNW ratio also stands comfortable at 1.31x as against 1.35x in FY19. The ISCR of the company stood comfortable at 1.87x in FY20, although it deteriorated from 2.02x in FY19. Better ISCR is a result of the company managing its operating expenses prudently that has helped it to maintain the operating margins of over 10% continuously for the past four years, although the sales have continued to vary significantly during this period.
- **Expectations of demand revival from Agricultural & Exports segment:** Sales to commercial vehicle manufacturers & agricultural equipment manufacturers contribute ~ 40-45% each in the company's revenue profile. While the commercial vehicle continues to be badly hit, the demand from agricultural equipment & vehicle manufacturers have shown some revival as the rural economy was relatively immune to the impact of Covid-19 in Q1FY21. Also, the company's exports contributed 10-15% of its revenues, demand for which is also stable.
- **Long operational track record of the company & well diversified clientele:** HTL was established in 1989 by Mr. Vijay Aggarwal. Later, he was joined by his brothers, Mr. Rajeev & Mr. Vinod Aggarwal. The company benefits from its established relationships with Tier-1 auto-component suppliers to automotive majors such as Mahindra & Mahindra, Tata Motors, Ashok Leyland etc. It also supplies auto components to agricultural equipment & tractor manufacturers such as Sonalika Industries, International Tractors Ltd., Indo Farm Ltd. etc. which leads to client diversification with less dependence on a single customer. After its merger with Gujarat Automotive & Gears Ltd., the company now has access to new clientele spread over



international geographies and also expanded its product portfolio to more than 700 different components.

Credit Risks:

- **Decline in revenues and profitability:** Owing to the ongoing slump in the automotive industry, the sales of the company have declined by ~ 30% to Rs 227 Crs (FY20) as against ~ Rs 324 Cr in FY19. Net Profitability of the company also declined sharply from 5.65% in FY19 to 1.43% in FY20 while the profits have remained in a range of 3-4% in previous years. Sharp dip in profits is attributed to a profit of only Rs 0.47 Crs in H2FY20 while the sales stood at ~102 Crs in H2FY20.
- **Poor Debt Service Coverage Ratio:** The cash accruals of the company were tightly matched the maturing debt of Rs 13.77 Crs resulting in a poor DSCR of 0.95x in FY20. The NCA: Long Term Debt ratio of the company deteriorated from 0.80x in FY19 to 0.35x in FY20.
- **High working capital requirements:** The company is required to maintain high inventory to support its integrated operations and wide product portfolio. Its gross current asset days stood very high at 360 days which were partly funded by trade creditors of 123 days in FY20. The company had a large inventory of ~Rs 124 Crs, resulting in a stretched cash conversion cycle of 237 days in FY20.
- **Uncertainty regarding the dispute between the promoters & VC funds over invocation of pledged shares:** As per the disclosures made by the company to BSE, the promoters had filed a civil writ petition against IFCI Venture Capital Fund, contesting the Fund's right to exercise the invocation of the pledged shares based on the share pledge agreement dated 05.05.2011 between the parties. The matter is currently subjudice before the Hon'ble Punjab & Haryana High Court. The promoters have pledged their 14.38 lakh shares to the fund. The promoters & promoter's group holds 42.90 lakh shares of the company which is 54.55% of ownership in the company.

Analytical Approach

The ratings of Him Teknoforge Ltd. have been arrived at on a standalone basis after the independent evaluation of its financial risk profile. For arriving at its ratings, Brickwork Ratings (BWR) has applied its rating methodology as detailed in the rating criteria below (hyperlinks provided at the end of this rationale)

RATING SENSITIVITIES

Positive: The rating may be upgraded if the company restores its revenues and profitability to the levels in FY19, improves the DSCR (say >1.2x) while also improving its liquidity position significantly and lowering its inventory to previous levels.



Negative: The ratings may be downgraded if the company’s DSCR is deteriorated further or the company’s promoters & promoter group loses a significant shareholding as a result of an adverse decision by the honorable high court in the matter currently subjudice.

LIQUIDITY POSITION: ADEQUATE

Stretched liquidity indicated by high utilisation of credit lines of over 95% for the last six months and high gross current assets days due to very high inventory of 310 days in FY20. The company has a current maturity of LTD of Rs 11.80 Crs in FY21, while the cash accruals stood at ~ Rs 12.06 Crs in FY20 and is expected to remain in the same range due to adverse impact of Covid 19 in the current year. Net cash accruals to total debt stood low at 0.10x in FY20. The company has no current investments and a cash balance of Rs 3.38 Crs in FY20. However, the current ratio stood comfortable at 1.22x in FY20.

About the Company

HTL (Formerly known as Gujarat Automotive Gears Limited) was established in 1989 by Mr. Vijay Aggarwal. The company’s registered office is located in Baddi, Himachal Pradesh. It is engaged into the manufacturing of rough forgings, finished gears & axles for the automotive industry, mainly the commercial auto manufacturers. It also manufactures auto and tractor components in Baroda, Gujarat. The company amalgamated with a BSE listed company – Gujarat Automotive & Gears Limited. The amalgamation scheme was approved by NCLT via order dtd. 09.01.2018. Subsequently its name was changed from ‘Gujarat Automotive & Gears Limited’ to ‘Him Teknoforge Limited’. The company runs six manufacturing units located at Baddi (two), Manpura, HP (one), Baroda, Gujarat (one) and Pithampur, MP (two).

Company’s Financial Performance

Key Parameters	Units	2020	2019
Result Type		Aud.	Aud.
Operating Revenue	Rs in Crs	227.53	323.79
EBITDA	Rs in Crs	20.00	26.07
PAT	Rs in Crs	3.25	18.30
Tangible Net worth	Rs in Crs	135.72	133.58
Total Debt/Tangible Net worth	Times	0.96	0.94
Current Ratio	Times	1.22	1.35



Key Covenants of the Instrument/Facility rated: None

Non-cooperation with previous Rating Agency, if any: India Ratings, vide its rationale dated 22 May 2020 migrated the rating of Him Teknoforge Ltd. to IND BB+/A4+ (Issuer Not Cooperating).

Rating History for the last three years (including withdrawn/suspended ratings) (Amounts in Rs Crs)

Facility/ Instrument	Current Rating				Rating History						
	10 Aug 2020				23 Dec 2019			29 Nov 2018			2017
	Facility	Type	Amount	Rating	Facility	Amount	Rating	Facility	Amount	Rating	
Bank Loan Facilities	FB	Long Term	142.67	BWR BBB (Rating Watch*)	FB	142.67	BWR BBB+ (Rating Watch*)	FB	154.51	BWR BBB+ (Stable)	NA
	NFB	Short Term	16.50	BWR A3 (Rating Watch*)	NFB	16.50	BWR A3+ (Rating Watch*)	NFB	16.70	BWR A3+ (Stable)	
	-				-			15 Feb 2018			
								FB	133.64	BWR BBB (Stable)	
								NFB	38.20	BWR A3 (Stable)	

***Rating under watch with developing implications**

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)

Analytical Contacts	Investor and Media Relations
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Him Teknoforge Ltd.

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	State Bank of India	CC Limit	93.00	-	93.00
2		Term Loans	20.06	-	20.06
3		EPC Limit (sub limit of CC)	-	(7.75)	(7.75)
4		LC	-	14.00	14.00
5		BG	-	2.50	2.50
6	TATA Capital	WC Term Loan	13.09	-	13.09
7	Other FI/NBFC's	Term Loans	16.52	-	16.52
TOTAL					159.17

Total Rupees One Hundred & Fifty Nine Crores & Seventeen lakhs only.

Additional information is available at www.brickworkratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Brickwork Ratings has been compensated for the provision of the ratings.



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