DYNAMATIC TECHNOLOGIES LIMITED

11th July 2024

1. The Secretary
Bombay Stock Exchange Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001.

2. The Secretary
National Stock Exchange of India Limited
"Exchange Plaza"
Bandra-Kurla Complex
Bandra East
Mumbai - 400 051.

Sub: Corporate Announcement – Credit Rating
Ref: Scrip Code: 505242 / DYNAMATECH

Dear Sir / Madam,

We wish to inform you that India Ratings & Research (Ind-Ra) has upgraded Dynamatic Technologies Limited's (DTL) bank facilities' ratings to 'IND A' from 'IND BBB+'. The Outlook is Stable.

The report is enclosed and the Exchanges are requested to take this on record.

Thank you.

Sincerely yours,

For **DYNAMATIC TECHNOLOGIES LIMITED**

Shivaram V

Shivaram V
Head Legal, Compliance & Company Secretary

India Ratings Upgrades Dynamatic Technologies' Bank Facilities to 'IND A'/Stable; Rates Additional Limits

Jul 11, 2024 | Auto Components & Equipments

India Ratings and Research (Ind-Ra) has upgraded Dynamatic Technologies Limited's (DTL) bank facilities' ratings to 'IND A' from 'IND BBB+'. The Outlook is Stable. The detailed rating actions are as follows:

Details of Instruments

Instrument Description	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Term loan	-	-	31 May 31	INR312.8	IND A/Stable	Assigned
Term loan	-	-	31 May 31	INR1,945.2	IND A/Stable	Upgraded
Fund-/Non-fund-based working capital limit*	-	-	-	INR1,900	IND A/Stable/ IND A1	Upgraded

*Proposed limits of INR700 million allocated to fund- & non-fund based working capital limit
*Non-fund-based working capital limits of INR100 million merged with fund-/non-fund-based working capital limit

Analytical Approach

Ind-Ra continues to fully consolidate DTL's subsidiaries, because of the strong operational and strategic linkages among them and DTL for the rating review.

Detailed Rationale of the Rating Action

The upgrade reflects DTL's strengthened capital structure, improved credit metrics, strong order book position, the increasing contribution of higher-margin products to the overall product mix and a continued improvement in the scale of operations in FY24. The upgrade also reflects the company's ability to generate strong cash flows, along with proceeds of asset monetisation and equity infusion being utilised towards deleveraging of the balance sheet. Ind-Ra expects DTL's scale and profitability to continue to increase on the back of the strong order book, improved product mix and better operating leverage, coupled with cost efficiencies. The increased share from the high-margin aerospace segment will also aid the margins over the near-to-medium term. Ind-Ra expects the company's FY25 net leverage to be in line with FY24 levels with the leverage gradually reducing FY26 onwards as the order execution starts to ramp up.

List of Key Rating Drivers

Strengths:

- Diversified revenue base; competitive market position with marquee clientele
- Sustained revenue growth in FY24; likely to continue in FY25
- Aerospace segment continues to be a key profit driver
- Improved performance of operational subsidiaries
- Improved capital structure, likely to improve further in FY26

Weaknesses:

- Modest credit metrics, although likely to improve further from FY26
- Elongated working capital cycle
- Concentration risk

Detailed Description of Key Rating Drivers

Diversified Revenue Base; Competitive Market Position with Marquee Clientele: DTL continues to have a well-diversified business profile, with a presence in three segments – aerospace & defence, hydraulics and metallurgy. The company's strong market position on account of its established relationships with renowned customers across industries and strong technological capabilities across geographies (India, the UK and Germany) support its business prospects. Based on the geographical location of customers, around 37% of DTL's consolidated revenue in FY24 came from Europe, 11% from the US, 20% from the UK and the remaining from rest of the world. DTL is a tier I supplier to global aerospace original equipment manufacturers (OEMs) such as Airbus SE, Bell Helicopter, Boeing Company and Hindustan Aeronautics Limited. The company has marquee clients in other segments as well.

Sustained Revenue Growth in FY24; Likely to Continue in FY25: In FY24, DTL's revenues grew 8.6% yoy to INR14.3 billion (FY23: INR13.2 billion; FY22: INR12.5 billion) on account of strong growth in the aerospace and metallurgy segments, though this was somewhat offset by the lower revenue from the hydraulics segment. While the EBITDA margins of the aerospace and metallurgy segments largely remained stable yoy, the consolidated margin declined marginally to 11.2% in FY24 (FY23: 13.8%, FY22: 13.5%), mainly due to a fall in the hydraulic segment's margins to 8.4% (18.9%, 17.3%) amid increased input prices and additional overhead costs incurred for new product launches.

Ind-Ra expects the company's revenue to rise 8%-10% yoy in FY25, supported by the increased number of orders, especially in the aerospace & defence segment and a ramp up of new product execution in the hydraulics segment. The EBITDA margin is likely to remain stable at 11%-13% in FY25; supported by healthy margins of the aerospace business and due to lease rental savings from the company's shift from the Peenya facility to its own facility in Devanahalli.

Aerospace Segment Continues to be a Key Profit Driver: Aerospace has remained a key focus area for the management. This segment contributed more than 30% to the total revenue over FY19-24 (except in FY22 which was impacted due to the COVID-19 outbreak) and more than 60% to the total EBITDA. The revenue from this segment was INR5.1 billion in FY24, up 36% from that in FY21. The EBITDA margins remained strong at 25.7% in FY24 (FY23: 26.7%, FY22: 27.5%). The company is focused on increasing its revenue and EBITDA from the aerospace segment and has been focused on introducing new products which has also led to the addition of new marque customers. The customers in the segment are Boeing, Dassault Systemes, Bell Helicopter, Deutsche Aircraft and Airbus. The successful execution of the order book in the aerospace segment, along with the company's ability to gain new orders, remains a key monitorable.

Improved Performance of Operational Subsidiaries: The performance of DTL's operational subsidiaries, Eisenwerk Erla (Germany; 100% shareholding) and Dynamatic Ltd (the UK; 100%), improved in FY24 on account of price hikes, especially in Germany, as part of the government's protective shield policy. Eisenwerk Erla and Dynamatic Ltd had contributed 33% and 27%, respectively, to DTL's consolidated revenue in FY24, operated at EBITDA margins of 5.2% and 9.2%, respectively, during FY24 (FY23: negative 21.6%, 6.5% respectively). Eisenwerk Erla turned profit-after-tax (PAT) positive in FY24, while Dynamatic Ltd's turned PAT positive in FY23. According to the management, the growing demand for the hydraulics and aerospace segments improved Dynamatic Ltd's revenues by 11% yoy in FY24. DTL has helped maintain liquidity in both the companies when required and had provided a corporate guarantee during FY15-FY16 for a leasing facility availed by UK-based Dynamatic; there was no outstanding balance at FYE24. Eisenwerk Erla and Dynamatic Ltd had a gross debt of INR0.042 billion and INR2.0 billion, respectively, in FY24. (FY23: INR0.7 billion and INR1.5 billion, respectively).

Improved Capital Structure, Likely to Improve Further from FY26: DTL's capital structure significantly improved in FY24, as a result of its ongoing efforts to deleverage its balance sheet. The company successfully reduced its net adjusted debt by 22% yoy to INR58.5 billion at FYE24 (FYE23: INR75.4 billion; FYE22: INR68.9 billion; FYE21: INR74.5 billion). This, along with equity infusion, helped in bringing down the total debt/equity to 0.7x in FY24 (FY23: 1.1x; FY22: 1.4x; FY21: 1.6x).

Ind-Ra expects the credit metrics to improve from FY26 with the improving profitability on account of a ramp up in the subsidiaries, and by the fulfilment of new, high-margin orders in the aerospace segment. The management expects DTL's 100% subsidiary Dynamatic Manufacturing Limited to breakeven in FY25 with the likely improvement in the profitability in Germany and UK businesses. Continued healthy performance of both the subsidiaries is likely to support DTL's consolidated cash generation. Ind-Ra expects the FY25 net adjusted leverage (net debt including bills discounting, and lease liabilities/EBITDA) to remain in line with FY24 levels (FY24: 3.4x, FY23: 3.4x, FY22: 4.0x). DTL's interest coverage is also likely to improve to above 3.0x in

FY25 (FY24: 2.5x, FY23: 2.8x, FY22: 2.9x).

Elongated Working Capital Cycle: The company's operations are working capital-intensive due to a long debtor collection and inventory holding period, mainly for the aerospace segment. As per Ind-Ra's calculation, in FY24, the company's net working capital cycle elongated to 138 days due to the increased revenue contribution from aerospace business, resulting in higher inventory and increased receivable days. Ind-Ra expects the working capital cycle to remain elongated at 115-130 days over the near-to-medium term. During FY24, DTL's net working cycle was 138 days (FY23: 121 days; FY22: 95 days), due to a decline in the payable days to 53 (74; 74), as adequate cash balances enabled the company to make payments to the suppliers. Ind-Ra expects the working capital cycle to normalise with the renegotiation of terms with the customers and inventory levels reducing to normal levels.

Concentration Risk: Although DTL has an increasingly diversified business profile, with a presence in three different industries, the aerospace segment accounted for 82% of the EBITDA during FY24. In addition, the customer concentration is high in the segment, with the top three clients for the India operations contributing around 66% of the segment's revenue in FY24 (FY23: 74%; FY22: 65%).

However, this risk is largely mitigated because of the long-term nature of contracts (renewed every five years and perpetual in nature) and high entry barriers in the industry. The concentration risk is further mitigated by the fact that the two subsegments of the aerospace segment - commercial aerospace and defence nature of contracts - have an almost 70:30 share in the revenue. Ind-Ra also takes comfort from DTL being a tier I supplier to marquee clientele such as Airbus and Boeing, which are leading global aircraft manufacturers.

Liquidity

Adequate: DTL's average peak utilisation of its INR1,650 million fund-based limits was high at 89% over the 12 months ended May 2024. The consolidated cash flow from operations reduced to INR0.97 billion in FY24 (FY23: INR1.31 billion, FY22: INR1.07 billion), owing to lower EBITDA and the elongation in the working capital cycle. The free cash flow remained negative at INR353 million in FY24 (FY23: negative INR78 million, FY22: INR38 million) due to a higher capex of INR749 million (INR849 million; INR581 million).

The free cash flow is likely to turn positive in FY26, owing to moderate capex plans. The company has debt repayments of INR418 million and INR463 million in FY25 and FY26, respectively. DTL also plans to increase working capital limits owing to the requirements of its subsidiaries. The refinancing of working capital limits would result in interest cost savings. DTL's total debt, excluding lease liabilities, was INR4.6 billion at FYE24, with a term debt of INR2.3 billion (FYE23: INR3.6 billion; FYE22: INR3.8 billion). Ind-Ra expects the company's balance sheet to de-leverage in FY25 with an improvement in operations and no further significant, debt-funded capex plans.

Rating Sensitivities

Positive: Developments that, individually or collectively, could lead to a positive rating action are:

- a successful and timely execution of the order book, leading to sustained growth in the scale of profitability
- an increase in the liquidity buffers and strengthened credit metrics on a sustained basis

Negative: A decline in the consolidated revenue or profitability, any major debt-funded capex plans and/or elongation of the working capital cycle, leading to the consolidated net adjusted leverage remaining above 2.75x, on a sustained basis, will be negative for the ratings.

Disclosures for CE Rating

Not applicable

Disclosures for Provisional Rating

Not applicable

Any Other Information

Not applicable

ESG Issues

Not applicable

About the Company

Incorporated in 1973, DTL manufactures highly engineered and critical products for the aerospace and defence, metallurgy and hydraulic segments. The company has engineering and manufacturing facilities in Europe, the UK and India and caters to customers across six continents.

Key Financials Indicators

Particulars (INR billion; Consolidated)	FY24*	FY23*
Revenue	14.3	13.2
EBITDA	1.6	1.8
EBITDA margin (%)	11.2	13.8
Interest coverage (x)	2.5	2.8
Net leverage (x)	3.4	3.4
*includes lease liabilities Source: DTL, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings	Historical Rating/Outlook		
				22 September 2023	17 May 2023	18 February 2022
Issuer Rating	Long-Term	-	-	WD	IND BBB+/Positive	IND BBB+/Positive
Fund-/Non-fund-based working capital limit	Long-term/Short-term	INR 1,900	IND A/Stable/IND A1	-	IND BBB+/Positive / IND A2+	IND BBB+/Positive / IND A2+
Term loan	Long-term	INR2,258	IND A/Stable	-	IND BBB+/Positive	IND BBB+/Positive

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Term loan	Low

Fund-/Non-fund based working capital limit	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-

Annexure

Not applicable

APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

Contact

Primary Analyst
Nikhil Sahu
Analyst
India Ratings and Research Pvt Ltd
DLF Epitome, Level 16, Building No. 5, Tower B DLF Cyber City, Gurugram Haryana - 122002
+91 124 6687219
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Shefali Joshi
Senior Analyst
+91 124 6687261

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Dynamatic Technologies Limited

The details are as reported by the issuer as on (11 Jul 2024)

#	Bank Name	Instrument Description	Rated Amount (INR million)	Rating
1	ICICI Bank	Term Loan	1250	IND A/Stable
2	EXIM Bank	Term Loan	308	IND A/Stable
3	Axis Bank Limited	Fund Based Working Capital Limit	700	IND A/Stable/IND A1
4	IndusInd Bank Limited	Fund Based Working Capital Limit	500	IND A/Stable/IND A1
5	ICICI Bank	Fund/Non-Fund Based Working Capital Limit	700	IND A/Stable/IND A1
6	Axis Finance Limited	Term loan	700	IND A/Stable