



Ref. No. HIRECT/SEC/2022-2023/58

February 13, 2023

**BSE Limited**  
Rotunda Building,  
Phiroz Jeejeebhoy Towers,  
Dalal Street, Mumbai  
400 001 Maharashtra

**National Stock Exchange of India Limited**  
"Exchange Plaza" 5<sup>th</sup> Floor, C-1, Block 'G'  
Bandra Kurla Complex,  
Bandra (East) Mumbai 400 051

Security Code No.: 504036

Symbol: HIRECT

Type of Security: Equity

**Sub: Credit Rating**

Dear Sir/ Madam,

This has reference to Regulation 30(6) of the SEBI Listing Regulations 2015.

In accordance with the said regulation, please find below the details of the revised rating published by CRISIL on February 13, 2023.

Total bank loan facilities rated	Rs 132 crore
Long-term rating	CRISIL BBB-/Negative (rating reaffirmed and outlook revised from 'Stable')
Short-term rating	CRISIL A3 (reaffirmed)

CRISIL Ratings has revised its outlook on the long-term bank facilities of Hind Rectifiers Limited (HRL) to 'Negative' from 'Stable' while reaffirming the rating at 'CRISIL BBB-'. The short-term rating has been reaffirmed at 'CRISIL A3'. The company reported cash losses in this period due to a decline in revenues as well as operating margins. This was due to delays in the execution of orders, coupled with a significant increase in raw material prices primarily electrical components as well as unfavorable product mix. However, some recovery is witnessed in Q3 of fiscal 2023.

Kindly take the same on record.

Thanking you,

Yours Faithfully,

**For Hind Rectifiers Limited**

*Meenakshi*  
**Meenakshi Anchlia**  
(Company Secretary & Compliance Officer)

Encl: As above

## Rating Rationale

February 13, 2023 | Mumbai

### Hind Rectifiers Limited

Rating outlook revised to 'Negative'; Ratings reaffirmed

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.132 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL BBB-/Negative (Outlook revised from 'Stable'; Rating Reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A3 (Reaffirmed)</b>

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

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 '**Negative**' from '**Stable**' while reaffirming the rating at '**CRISIL BBB-**'. The short-term rating has been reaffirmed at '**CRISIL A3**'.

The revision in outlook reflects weakening of business and financial risk profiles, as reported in 9 month ended December 31, 2022. The company reported cash losses in this period due to decline in revenues as well as operating margins. This was due to delays in execution of order, coupled with significant increase in raw material prices primarily electrical components as well as unfavorable product mix. Although, some recovery is witnessed in Q3 of fiscal 2023, the overall performance for the year, is expected to remain below CRISIL Ratings expectations as well as fiscal 2022. A sustained weak operating performance could impact the liquidity in near term. Hence, sustained improvement in business performance and liquidity would be a key monitorable.

The ratings continue to reflect the extensive experience of the promoters in the power electronic equipment industry, the strong order book providing revenue visibility and the comfortable financial risk profile of the company. These strengths are partially offset by the large working capital requirement and exposure to risk posed by the tender-based nature of business and concentration in the end-user industry base.

CRISIL Ratings had revised its outlook on the long-term bank facilities of HRL to '**Stable**' from '**Positive**' while reaffirming the rating at '**CRISIL BBB-**'; the short-term rating has been reaffirmed at '**CRISIL A3**' on November 25, 2022.

#### Key Rating Drivers & Detailed Description

##### Strengths:

**Extensive experience of the promoters:** Benefits from the five-decade-long experience of the promoters in the power electronic equipment industry, 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 the Indian Railways and Bharat Heavy Electricals Ltd (rated '**CRISIL AA-/Negative**'). Revenue rose Rs 372.5 crore in fiscal 2022 from Rs 305 crore in fiscal 2021. The company has achieved revenue of Rs 247 crore till December 2022 and is likely to report revenue of Rs 360-370 crore for the full fiscal.

**Strong order pipeline:** Orders worth more than Rs 330 crore, to be executed in the next 18 months, provide near-term revenue visibility and will help sustain growth in revenue. Fresh tenders, expected to float in March 2023, should also ensure a steady flow of orders. This is driven by continuous development of new products and addition of customers.

**Comfortable capital structure:** Networth was healthy, at Rs 100.7 crore as on September 30, 2022, as against Rs 89 crore as on March 31, 2022. Total outside liabilities to adjusted networth ratio was moderate at 1.5 times, as on March 31, 2022, aided by a healthy networth and stable debt. Capital structure should remain comfortable over the medium term with steady accretion to reserves.

##### Weaknesses:

**Exposure to risks posed by the tender-based nature of operations and concentration in the end-user industry base:** The company derives 70-80% of its revenue from the Indian Railways, and thus, growth in revenue and profitability remain

linked to prospects of this segment. Any slowdown or stretch in receivables could impinge upon performance of the company. Further, as majority of revenue is tender-based, income and profitability also depend upon ability of the company to bid successfully for contracts floated by the Indian Railways and other government agencies. Revenue is likely to decline in fiscal 2023, with Rs 247.5 crore booked for the first nine months. Sustained growth in revenue would be a key monitorable over the medium term.

**Volatility in operating margin:** Operating margin have been volatile in the range of 6-8% over the past few fiscals (except in fiscal 2020 when the company received a one-time high-margin order). The margin has declined to 4% as on December 2022 due to variation in the product mix and fluctuation in prices of raw materials such as oil, copper, semi-conductors and various other electrical components and execution of contracts at lower rates. Improvement in operating margin remains a key monitorable over the medium term.

**Large working capital cycle:** Gross current assets were high ranging from 160 to 200 days for the four fiscals ended March 31, 2022, driven by large receivables of 65-110 days and inventory of 80-105 days. The company extends a high credit period to customers and maintain sizeable inventory to meet customer requirements on time.

**Subdued debt protection metrics:** Owing to operating losses in the first nine months of fiscal 2023, debt protection metrics have weakened as reflected in interest coverage ratios of 0.72 time as on December 2022 as compared to 3.4 times during the same period in 2021. Improvement in debt protection metrics remains a key sensitivity factor.

#### **Liquidity: Stretched**

Liquidity is marked by insufficient cash accrual and moderate bank limit utilisation. Cash accrual are expected of Rs 3-3.5 crore which would be insufficient against annual debt obligation of Rs 7.5-8 crore in fiscal 2023. Improvement in cash accruals is expected to be at Rs. 13-14 crore which would be sufficient against debt obligation of Rs. 7.5-9 each in fiscal 2024 and 2025 and would remain a key monitorable. Bank limit utilisation was moderate averaging 70% on for the three months through December 2022. Current ratio was moderate at 1.47 times as on March 31, 2022. Moderate gearing and healthy networth provide financial flexibility to raise additional debt in case of any adverse conditions or downturns in the business.

#### **Outlook: Negative**

CRISIL Ratings believes the financial risk profile and liquidity of HRL may remain under pressure over the medium term owing to low cash profit.

#### **Rating Sensitivity Factors**

##### **Upward factors:**

- Growth in revenue and operating margin leading to cash accrual of over Rs 12 crore
- Sustenance of capital structure and working capital cycle

##### **Downward factors:**

- Bank limit utilisation exceeding 90%, thus weakening liquidity
- Decline in revenue on account of delays in order execution or further fall in operating margin, leading to lower cash accrual

#### **About the Company**

Incorporated in April 1958, HRL was promoted by the late Mr SK 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-22	2022	2020
Revenue	Rs crore	247.51	372.1	305.1
PAT	Rs crore	-3.91	7.8	5.33
PAT margin	%	-1.58	2.1	1.75
Adjusted debt/adjusted networth	Times	-	0.83	1.01
Interest coverage	Times	-	3.12	2.2

**Any other information:** Not applicable

#### **Note on complexity levels of the rated instrument:**

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available

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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	27	NA	CRISIL A3
NA	Cash Credit	NA	NA	NA	83.5	NA	CRISIL BBB-/Negative
NA	Overdraft Facility	NA	NA	NA	7	NA	CRISIL BBB-/Negative
NA	Term Loan	NA	NA	Jun-26	5	NA	CRISIL BBB-/Negative
NA	Term Loan	NA	NA	Jun-26	3.5	NA	CRISIL BBB-/Negative
NA	Term Loan	NA	NA	Jun-26	6	NA	CRISIL BBB-/Negative

#### Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	105.0	CRISIL BBB-/Negative	--	--	25-11-22	CRISIL BBB-/Stable	28-05-21	CRISIL BBB-/Stable	10-02-20	CRISIL BBB-/Positive	CRISIL BBB-/Stable
			--	--	--	30-05-22	CRISIL BBB-/Positive	--	--	05-02-20	CRISIL BBB-/Positive	--
			--	--	--	19-05-22	CRISIL BBB-/Positive	--	--	--	--	--
Non-Fund Based Facilities	ST	27.0	CRISIL A3	--	--	25-11-22	CRISIL A3	28-05-21	CRISIL A3	10-02-20	CRISIL A3	CRISIL A3
			--	--	--	30-05-22	CRISIL A3	--	--	05-02-20	CRISIL A3	--
			--	--	--	19-05-22	CRISIL A3	--	--	--	--	--

All amounts are in Rs.Cr.

#### Annexure - Details of Bank Lenders & Facilities

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

This Annexure has been updated on 13-Feb-2023 in line with the lender-wise facility details as on 06-May-2022 received from the rated entity.

## Criteria Details

<b>Links to related criteria</b>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">The Rating Process</a>
<a href="#">Understanding CRISILs Ratings and Rating Scales</a>
<a href="#">CRISILs Bank Loan Ratings</a>
<a href="#">Rating Criteria for Engineering Sector</a>
<a href="#">Understanding CRISILs Ratings and Rating Scales</a>

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