DYNAMATIC TECHNOLOGIES LIMITED

19th May 2023

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 affirmed Dynamatic Technologies Limited's (DTL) Long-Term Issuer Rating at **'IND BBB+'. The Outlook is Positive**

The reports by the above referred credit rating agency is enclosed. The Exchanges are requested to take this on record.

Thank you.

Sincerely yours,

For **DYNAMATIC TECHNOLOGIES LIMITED**

Shivaram V
Head Legal, Compliance & Company Secretary

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Corporate Identity Number: L72200KA1973PLC002308

IndiaRatings & Research

A Fitch Group Company

Correction: India Ratings Affirms Dynamatic Technologies at 'IND BBB+'/Positive

May 18, 2023 | Auto Components & Equipments

This announcement corrects the version published on 17 May 2023 to clarify that the recent capital raise by the issuer was through a preferential allotment of equity shares. The amended version is as follows:

India Ratings and Research (Ind-Ra) has affirmed Dynamatic Technologies Limited's (DTL) Long-Term Issuer Rating at 'IND BBB+'. The Outlook is Positive. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based/Non-fund-based working capital limits	-	-	-	INR1,200 (reduced from INR1,700)	IND BBB+/Positive/IND A2+	Affirmed
Non-fund-based working capital limits	-	-	-	INR100 (reduced from INR150)	IND A2+	Affirmed
Proposed fund-/non-based working capital limits	-	-	-	INR700 (reduced from INR741.8)	IND BBB+/Positive/IND A2+	Affirmed
Term loan	-	-	March 2028	INR1945.2 (reduced from INR2,537)	IND BBB+/Positive	Affirmed

Analytical Approach: Ind-Ra continues to take a consolidated view of DTL and its subsidiaries, because of the strong operational and strategic linkages among them.

The Positive Outlook reflects the recent capital raise of INR1.13 billion by the company through a preferential allotment of equity shares, likely improvement in the operating performance of the two key subsidiaries of the company, with both likely to witness healthy margins, the potential to earn additional revenue from its Germany operations due to the German's government's protective shield policy, and the reduction in lease rental expenses in the India business due to the company's shift to owned premises. The company intends to utilise the proceeds of equity issue through the preferential share allotment to retire high-cost debt and working capital borrowings, which is likely to result in the net leverage (net debt/EBITDA) falling below 3x in FY24. At the time of the last review, Ind-Ra had expected the company to receive land sale proceeds of INR1.3 billion; however, the same has been substituted by the equity raise. The company is likely to opt for further deleveraging once the land parcel is sold.

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 industries – 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 46% of DTL's consolidated revenue in FY22 came from Europe, 13% from the US, 13% 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 Hellicopter, Boeing Company, and Hindustan Aeronautics Limited. The company has marquee clients in other segments as well.

Stable Operating Performance in 9MFY23; Likely Improvement in FY24: In 9MFY23, the revenues remained stable yoy at INR9.47 billion (9MFY22: INR 9.3 billion; FY22: INR12.5 billion). While the EBITDA margins of the aerospace and hydraulic segments largely remained stable yoy, the consolidated margin improved marginally to 13.9% in 9MFY23 (FY22: 13.5%; FY21: 13.3%), mainly due to higher revenue mix from the aerospace and hydraulics segment, which was slightly offset by the decline in the metallurgy segment's margins to 2.1% (4.1%; 6.8%) amid increased input costs.

Ind-Ra expects the company's revenue to have increased 5%-6% yoy in FY23, supported by increased orders in the aerospace & defence segment; the revenue from the hydraulics segment is likely to have increased 10%-11% yoy during the year with continued orders from the existing customers while the metallurgy segment is likely to have seen a drop in the revenue due to the company's increasing shift to aerospace segment. The EBITDA margin is likely to have remained stable at 14%-14.3% in FY23; however, the revenue is likely to have improved 12%-14% yoy in FY24, supported by the strong revival of the aerospace business. The EBITDA margins are likely to improve above 15% in FY24 due to price increase gained from customers through the protective shield in Germany and lease rental savings from the company's shift from the Peenya facility to its own facility in Devanahalli.

Equity Raise Supports Deleveraging Plans: During March 2023, DTL raised INR1.13 billion through the preferential allotment of equity shares. Ind-Ra had previously expected the company to raise INR1.2 billion from land sale. Nevertheless, the fund infusion would support the company's deleveraging efforts. In additional to the equity raise, DTL plans to expand its operations significantly in Germany, as the company is entitled to additional revenue from its customers under the government's protective shield policy. Ind-Ra expects the margins in Germany to expand to 7%-8% from 4%-5%, supporting the overall credit profile. Additionally, after three years (FY20-FY22) of recording thin margins, the UK subsidiary is likely to witness margins in the mid-teens in FY24. Continued healthy performance of both the subsidiaries is likely to support DTL's cash generation. Ind-Ra expects the net leverage to have improved to 3.3x-3.4x in FY23 (FY22: 4.0x; FY21: 4.7x), and believes it would improve further to below 3.0x in FY24.

DTL's consolidated net leverage stood at 4.0x and the interest coverage (EBITDA/interest expense) reduced slightly to 2.6x (2.9x, 2.1x) in 9MFY23, owing to an increase in the gross debt to INR7,445 million (INR6,885 million; INR7,454 million). In 9MFY23, the EBITDA grew 9% yoy to INR1,318 million (FY22: INR1,692 million; FY21: INR1,490 million) due to a reduction in the input costs.

Improved Performance of Operational Subsidiaries: The performance of DTL's operational subsidiaries, Eisenwerk Erla (Germany) (100% shareholding) and Dynamatic Ltd (the UK) (100%), is likely to have improved in FY23 on account of price hikes of EUR4 million-5 million, especially in Germany, as part of the government's protective shield policy.

Eisenwerk Erla and Dynamatic had contributed 37% and 20%, respectively, to DTL's consolidated revenue in FY22. operated at low EBITDA margins of 4%-7% and 8%-11%, respectively, during FY20-FY22.. Eisenwerk Erla turned profit-after-tax (PAT) positive in FY22, while Dynamatic Limited's PAT losses narrowed on a yoy basis during the year. According to the management, the growing demand for the hydraulics segment and aerospace improved the revenues for Dynamatic Limited by 36% in FY22; however, the company reported losses during the year due high raw material costs and increased interest expenses. 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; the outstanding balance stood at INR27.2 million at FYE22; however, it stands at nil in FYE23.

Liquidity Indicator - Adequate: DTL's average peak utilisation of its INR1,700 million fund-based limits was high at 86% over the 12 months ended April 2023. The consolidated cash flow from operations reduced to INR1.07 billion in FY22 (FY21: INR01.21 billion; FY20: INR1.7 billion) owing to lower EBITDA and the elongation in the working capital cycle. The free cash flow turned positive at INR37 million in FY22 (FY21: negative INR132 million; FY20: INR1.1 billion) due to a lower capex of INR581 million (INR784 million; INR581 million).

The free cash flow is likely to have stayed positive during FY23. owing to moderate capex plans. The company has debt repayments of INR1,476 million in FY24, which includes a pre-payment of INR500 million, which was completed in April 2023 through the equity raised. In FY25, the company has scheduled debt repayments of INR879 million. DTL also plans to reduce working capital limits; however, it can raise more limits as per requirement. The refinancing of working capital limits would result in interest cost savings. Ind-Ra has not factored in any support from asset monetisation. DTL's total debt, excluding lease liabilities, was INR6.1 billion at end-9MFY23, with a term debt of INR3.6 billion (FYE22: INR3.7 billion; FYE21: INR4.3 billion). Ind-Ra expects the company's balance sheet to de-leverage in FY24-25 with the equity infusion, an improvement in operations and the likely materialisation of asset monetisation.

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 9MFY23, the company's net working capital cycle elongated to 115 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 115-120 days due to DTL's increased raw material inventory which was procured in advance due to supply chain issues arising because of the Russia-Ukraine war. During FY22, DTL's net working cycle was 95 days (FY21: 94 days; FY20: 89 days), due to a decline in the payable days to 74 (77; 97), as adequate cash balances enabled the company to make payments to the suppliers. Ind-Ra expects the working capital cycle to normalize 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 division accounted for 59% of the EBITDA during FY22. In addition, the customer concentration is high in the division, with the top three clients for the India operations contributing around 79% of the division's revenue in FY22 (FY21: 86%; FY20: 82%).

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 division - commercial aerospace and defence nature of contracts - have an almost 50:50 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.

Rating Sensitivities

Positive: Sustained margin expansion, along with revenue growth and/or debt reduction, resulting in the net leverage reducing below 3x, on a sustained basis, along with an improvement in the liquidity position could lead to a positive rating action.

Negative: A decline in the revenue and profit, along with a sustained elongation of working capital cycle, resulting in stretched liquidity and the net leverage sustaining at/above 3x will be negative for the rating.

Company Profile

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

FINANCIAL SUMMARY

Particulars	9MFY23*	FY22*	FY21*
Revenue (INR billion)	9.47	12.5	11.2
EBITDA (INR billion)	1.3	1.7	1.5
EBITDA margin (%)	13.9	13.5	13.3
Interest coverage (x)	2.6	2.9	2.1
Net leverage (x)	4.0	4.0	4.7
*includes lease liabilities Source: DTL, Ind-Ra			

Solicitation Disclosures

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

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Rating History

Instrument Type	Current Rating/Outlook			
	Rating Type	Rated Limits (million)	Rating	18 Fel
Issuer rating	Long-term	-	IND BBB+/Positive	IND B
Fund/Non-fund-based working capital limits	Long-/short-term	INR1,200	IND BBB+/Positive/ IND A2+	BBB+/
Non-fund based working capital limits	Short-term	INR100	IND A2+	B
Proposed Fund/Non-fund based working capital limits	Long-/short-term	INR700	IND BBB+/Positive/IND A2+	BBB+/
Term loan	Long-term	INR1,945.2	IND BBB+/Positive	IND BI

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Working capital bank limits	Low
Non-fund based working capital limits	Low
Term loan	Low

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

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APPLICABLE CRITERIA

Evaluating Corporate Governance

The Rating Process

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

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