Edgetech Air Systems Private Limited

February 04, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	38.74 (Enhanced from 31.07)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	10.00	CARE A4+ (A Four Plus)	Reaffirmed
Total Bank Facilities	**48.74 (Rs. Forty-Eight Crore and Seventy-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Edgetech Air Systems Private Limited (EASPL) continue to be constrained by weak financial risk profile characterized by high overall gearing and elongated operating cycle, exposure to unhedged foreign exchange fluctuation, volatility in raw material prices and highly fragmented and competitive nature of industry. These rating constraints are, however partially offset by experienced and resourceful promoters, established relationship with reputed Original Equipment Manufacturers (OEM's) and satisfactory operational performance.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improved demand of heating ventilation and air conditioning components leading to a growth in total operating income.
- Improvement in gross cash accruals of more than Rs.6.00 crore with improved liquidity on a sustainable basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Weak operational performance with significant decline in operating income by more than 35% leading to stretched liquidity.
- Deterioration in capital structure with overall gearing above 4.20x on a sustained basis.

Detailed description of the key rating drivers

Key Rating Weaknesses

Long Operating cycle

The operating cycle of the company continues to remain high at 141 days (PY: 135 days) for FY20 (refers to the period from April 1 to March 31) due to stretched receivable period and high inventory holding period beyond 100 days. The company is a pre-approved vendor with many EPC players and other corporates including Voltas, Blue Star, and Sterling and Wilson which in turn negotiate with EASPL and other technically qualified players for the supplies. The collection period from these entities ranges between 90-120 days which entails 30 days inspection of material post billing and elongates the overall operating cycle. The inventory holding period remained high at 151 days (PY: 117 days) for FY20 owing to various reasons including high semi-finished goods (83% of the total inventory – PY 84%) on account of shortfall in sales during March (2020) due to nation-wide lockdown and EASPL's strategy to stock-up steel (raw material) on expectation of rising prices of the metal. A large part of the inventory has been funded through unpaid creditors. The average working capital utilization remained high with average CC utilization of 89.14% and non-fund based utilization of 69.26 % for the past 12 months ending December 2020.

Exposure to Forex Risk & Raw Material Price Volatility

Major raw materials used by EASPL are copper, steel, aluminium profiles and foils, iron sheets (painted and galvanized sheets), fans, air filters, and electric motors. Company sources majority of copper through imports. The company does not hedge its forex exposure since the same constitutes a small fraction (25%) of total procurement vis-à-vis the hedging cost involved. Furthermore, the copper prices bear a high degree of negative correlation with the movement of dollar prices and thereby provide a natural hedge against any short term adverse movement in copper prices. Other raw material requirement is majorly met domestically. EASPL enters into fixed price contracts with its customers, and remains exposed to risk arising out of raw material price volatility, however, above a certain threshold, it can pass on the rise in raw material prices to its customers, thereby mitigating raw material price volatility risk to an extent.

Leveraged capital structure marked with high overall gearing

The overall gearing of the company remained high at 3.63x (PY: 3.94x) as on March 31, 2020 primarily on account of high working capital borrowings as on balance sheet date. Further, the unsecured loans from promoters as on March 31, 2020 stood at Rs.19.88 crore, out of which Rs.3.76 crore were infused in FY20. Other debt coverage indicators moderated slightly as reflected by PBILDT interest coverage ratio of 1.65x in FY20 (PY: 1.77x) and total Debt/GCA of 20.66x (PY: 18.78x) in FY20.

Fragmented and Competitive Nature of HVAC Industry

HVAC industry is a highly fragmented industry with large number of medium and small players that compete for their share of business. Due to intense competition among different players in the unorganized industry, the profitability margins in HVAC industry are relatively low.

Key rating strengths

Experienced and resourceful promoters

EASPL was incorporated in January, 2005 by Mr. R.P. Goel. The company is currently being managed by Mr. R.P. Goel (Chairman) and his son Mr. Amit Goel (Managing Director). Mr. R.P. Goel is a post graduate from Punjab University and has more than 4 decades of experience in the industry. His son, Mr. Amit Goel is a graduate from Delhi University and has around 21 years of experience in the HVAC industry. The promoters of EASPL have been supporting the operations of the company by infusing funds as and when required.

Established relations with reputed OEM's

EASPL is engaged in manufacturing of HVAC systems since 2005 and has established strong relationships with reputed OEM's such as Blue Star, Voltas, Sterling & Wilson etc. Besides this the company has also done installation for customers in various sectors including hotels, pharmaceuticals, hospitals, telecom, automobile, and education.

Satisfactory operational performance

The company reported marginal growth of 4.31% in total operating income for FY20 to Rs.161.53 crore driven by increase in volume sales of ventilation units and air washer units. The PBILDT margin of the company increased marginally to 5.92% (PY: 5.68%) in FY20. Consequently, the PAT margin of the company improved to 1.31% (PY: 1.07%). As per the provisional results for 9MFY21 (refers to the period from April 01 to December 31), EASPL reported a total operating income of Rs.99.14 crore and PAT of Rs.1.30 crore.

Industry Prospects

With increase in disposable income of people and growth in the commercial, industrial, and residential infrastructure investments in the country, the Indian HVAC (Heating, ventilation, and air conditioning) industry is expected to continue on its growth path. The prospects of the manufacturers like EASPL shall be governed by its ability to retain and grow its business with leading players in the Indian HVAC industry.

Liquidity: Stretched

Liquidity is marked by high operating cycle of the company which stood at 141 days as on March 31, 2020 (135 days as on March 31, 2019) primarily on account of high inventory days. The working capital limit utilization of the company remained high with average fund based and non-fund based utilization of 89.14% and 69.26% respectively for the trailing 12 months ending December, 2020. The company is expecting cash accruals of Rs.3.67 crore in FY21 against scheduled repayments of Rs.3.24 crore in FY21. Further, the company has free cash and bank balance to the tune of 2.14 crore as on December 31, 2020 which has been built up as a result of healthy cash flow from operations in the current year supported by collection of previous year dues. The company had availed moratorium under RBI's Covid-19 relief package.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity analysis of non-financial sector entities

About the Company

Edgetech Air Systems Pvt Ltd (EASPL) was incorporated in January 2005 by Mr. R.P. Goel. The company is engaged in manufacturing Heating Ventilation and Air Conditioning (HVAC) components/equipment such as air handling units/solutions (AHU), fan coils and advanced coils which are used in comfort air conditionings for offices, hotels, malls, restaurants etc. EASPL has its manufacturing facility in Rohad, Haryana and Mundka, Delhi which are ISO 9001: 2008 and 14001: 2004 certified. EASPL has production capacity of 11,000 AHU's, 1,500 Air Ventilation units, 1,000 Air Washers & 10,000 Fan Coil Units, EASPL markets its products under the brand Edgetech and operates through offices located in Delhi, Mumbai and Bangalore. EASPL also exports its products to Indian Subcontinent (Bangladesh, Nepal, Sri Lanka, and Bhutan) mainly through their own sales channels & African countries (South Africa, Kenya, and Nigeria) through dealers.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	154.85	161.53
PBILDT	8.79	9.55
PAT	1.70	1.99
Overall gearing (times)	3.94	3.63
Interest coverage (times)	1.77	1.65

A: Audited

Status of non-cooperation with previous CRA: Brickwork vide PR dated September 24, 2020

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	30.00	CARE BB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	10.00	CARE A4+
Term Loan-Long Term	-	-	-	8.74	CARE BB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	30.00	CARE BB+; Stable	-	1)CARE BB+; Stable (06-Jan-20)	1)CARE BB+; Stable (01-Feb-19)	-
2.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A4+	-	1)CARE A4+ (06-Jan-20)	1)CARE A4+ (01-Feb-19)	-
3.	Term Loan-Long Term	LT	8.74	CARE BB+; Stable	-	1)CARE BB+; Stable (06-Jan-20)	1)CARE BB+; Stable (01-Feb-19)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Nil

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple
3.	Term Loan-Long Term	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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