

## Ice Make Refrigeration Limited

January 05, 2021

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	2.39 (reduced from Rs.2.82 crore)	<b>CARE BBB+; Stable (Triple B Plus; Outlook: Stable)</b>	Reaffirmed
Long-term / Short-term Bank Facilities	19.00	<b>CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable / A Two)</b>	Reaffirmed
<b>Total Facilities</b>	<b>21.39 (Rupees Twenty One Crore and Thirty Nine Lakh only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Ice Make Refrigeration Limited (IMRL) continue to derive strength from the long standing experience of its promoters in refrigeration equipment industry and its established clientele. The ratings further take into account its stable total operating income (TOI) and moderate profitability during FY20 (FY refers to period from April 01 to March 31) along with its comfortable capital structure and debt coverage indicators and its adequate liquidity, on a consolidated basis.

The ratings, however, continue to remain constrained on account of IMRL's moderate scale of operations, susceptibility of IMRL's operating profitability to volatility in input costs, stiff competition from organized players in the industry and subdued performance of IMRL's wholly owned subsidiary viz. Bharat Refrigeration Private Limited (BRPL) present in same line of business, which however contributes a nominal amount to IMRL's consolidated TOI. The ratings also take into account moderation in IMRL's TOI during H1FY21 stemming from outbreak of covid-19 pandemic and associated nationwide lockdowns.

### Rating Sensitivities

#### Positive Factors

- Volume driven growth in TOI beyond Rs.400 crore along with sustained operating profitability (PBILDT margin) of more than 15%
- Sustained generation of healthy cash flow from operations along with maintenance of comfortable capital structure and debt coverage indicators

#### Negative Factors

- Decline in total operating income to lower than Rs.100 crore or decline in PBILDT margin below 8%, on a sustained basis
- Elongation in working capital cycle to beyond 120 days with increase in external borrowings to fund these requirements
- Deterioration in overall gearing beyond 0.80x
- Any large sized debt-funded capex or any significant deterioration in the performance of BRPL, resulting in deterioration in consolidated debt coverage indicators

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Promoters' experience in the refrigeration equipment industry:** IMRL's key promoter, Mr. Chandrakant Patel, has over two decades of experience in the refrigeration equipment manufacturing industry. He looks after sales and marketing, research & development, human resource and administration along with strategic planning decisions. The co-promoters, Mr. Rajendra Patel & Mr. Vipul Patel, also have an experience of over two decades in the refrigeration equipment industry.

**Established and diversified clientele:** Over the years, IMRL has established a strong clientele across industries. Some of the industries to which it has provided refrigeration solutions include pharmaceuticals, dairy and ice-cream, healthcare and food products. Further, the diversification in IMRL's client profile also remained healthy with top clients contributing only around 30% of its total revenue over the last three years ended FY20. Around 60-70% of IMRL's revenue is generated from direct sales whereas the balance is through its dealers and distributors spread across the

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

country. Cold room and related storage products contribute the highest (~45-55% of its total sales in FY20 & H1FY21) to IMRL's overall revenue, as they are generally of larger ticket size with on-site installation and commissioning requirements.

**Stable total operating income with moderate profitability:** During FY20, IMRL reported stable TOI of Rs.137.97 crore (P.Y. Rs.131.99 crore) on a consolidated basis with stable demand from its customers, including repeat orders from its existing customers. Profitability also remained moderate with a PBILDT margin of 9.41% during FY20, which albeit declined marginally by 131 bps from FY19 level, largely on account of increase in employee costs (for ammonia division) and other operational overheads, such as job work & labour charges and sales commission, which IMRL was not able to pass on to its customers owing to its fixed price orders underlining the competition in the industry. This resulted in a largely similar decline in PAT margin to 4.13% for FY20 (P.Y.: 5.67%), albeit same remained moderate with GCA of Rs.8.62 crore in FY20.

During H1FY21, IMRL reported decline of around 17% y-o-y in its TOI, as its operations were affected by slowdown in demand and order execution due to outbreak of Covid-19 pandemic, with closure of company's operations during some months owing to Covid-19 induced lockdowns. However, IMRL's PBILDT margin remained stable at 7.74% for H1FY21, compared with 7.03% for H1FY20, which along with stable depreciation and interest costs also translated into stable PAT margin. However, there was some revival in sales with resumption of economic activities during Q3FY21. Further, IMRL's business operations exhibit seasonality, since a majority of IMRL's sales orders are executed during December – March period just before the onset of summer, which is expected to translate into higher sales in H2FY21. Company had moderate order book of Rs.38.32 crore as on December 20, 2020.

**Comfortable leverage and debt coverage indicators:** During FY20, IMRL's consolidated overall gearing remained comfortable at 0.27x as on March 31, 2020, though with some deterioration as compared to 0.07x as on March 31, 2019 on account of increase in working capital borrowings with higher working capital requirements, along with availment of long-term debt for purchase of a land parcel. Further, IMRL's debt coverage indicators on a consolidated basis also remained comfortable as indicated by PBILDT interest coverage of 7.19x during FY20 and total debt/GCA of 1.61x as on March 31, 2020; albeit with some deterioration in the same from previous year owing to moderation in operating profitability and increased debt levels.

Land parcel purchased during FY20 was previously availed on rent, while imposition of a nation-wide lockdown during March'20 end also increased working capital requirements to some extent in the form of slower dispatches of orders leading to higher inventory holding and increased receivables as on FY20 end, which remained largely stable as on September'20 end. IMRL's consolidated overall gearing remained stable at 0.27x as on September 30, 2020.

**Liquidity - Adequate:** Despite the working capital intensity of its operations, IMRL's liquidity remains adequate marked by moderate utilization of its working capital limits at around 51% for the trailing 12 months ended September 2020 and a stable operating cycle at around 92 days for FY20 (88 days in FY19). Further, IMRL has sufficient cushion in its accruals vis-à-vis its debt repayment obligations (GCA of Rs.8.62 crore in FY20, as against repayments of Rs.0.91 crore in FY21) and free cash balance of Rs.1.95 crore as on March 31, 2020. Also, IMRL has low capex requirements, as it has built up adequate capacity to cater to its planned growth in turnover over the next two-three years.

#### Key Rating Weaknesses

**Susceptibility of operating profitability to volatility in input costs:** IMRL's key raw materials comprise of polyurethane (PU) chemical and galvanized steel sheets along with components made from copper and aluminum. As the prices of these products are volatile in nature (as PU is a crude oil derivative, while prices of metals are inherently volatile), it exposes IMRL's profitability to any adverse movement in these prices. While IMRL has established its procurement practices to insulate itself from any expected volatility in raw material prices, it is also required to hold ready inventory of some of these products to cater to the time bound requirement of its clients, exposing it to volatility to some extent. Due to a relatively short delivery schedule (2-3 months) for its products (some of which are also standardized), it is able to partly pass on any abnormal adverse movement in prices to its customers with some time lag, however, high competitive intensity in the industry acts as a major challenge for its profitability.

**Competition from established players and its moderate scale of operations:** Refrigeration equipment industry is majorly characterized by presence of reputed organized players including Voltas Ltd. and Blue Star Ltd. These entities are considerably larger and their scale of operations provides them with better operational and financial flexibility. This also limits the bargaining power of IMRL vis-à-vis its customers, limiting its profitability.

IMRL positions itself as a complete solutions provider in the refrigeration equipment business and has been able to gradually grow its TOI over the last few years, which also reflects the increased demand for its products and underlines their quality; however its scale has remained moderate owing to a competitive industry. Furthermore, financial performance of BRPL has also remained subdued with miniscule TOI of Rs.6.57 crore in FY20 and operating losses during the year, constraining the overall profitability of the company on a consolidated basis.

### Analytical Approach: Consolidated

IMRL's credit risk profile has been analyzed on a consolidated basis with Bharat Refrigerations Private Limited (BRPL), as BRPL is its wholly-owned subsidiary and both the entities are engaged in similar line of business except for catering to different geographies. IMRL has also been providing need-based support to BRPL.

Details of entities considered in IMRL's consolidation are shown in **Annexure-3**.

### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Criteria for Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology – Consolidation](#)

### About the Company

Gandhinagar, Gujarat based IMRL, erstwhile known as IC Ice Make Refrigeration Pvt. Ltd., was originally established as a partnership firm and was subsequently reconstituted in 2009 as a private limited company. IMRL, promoted by Mr. Chandrakant Patel, Rajendra Patel and Mr. Vipul Patel, is engaged in the manufacturing of a wide range of refrigeration products under the brand name 'Ice Make'. IMRL's manufacturing facilities are located at Gandhinagar, Gujarat.

The company provides refrigeration solutions including cooling, pre-cooling, mobile pre-cooling, blast chilling, blast freezing, storage and display. IMRL's products are broadly classified into five categories viz., cold room & storage products (54% of its revenue in FY20), commercial refrigeration products (22%), transport refrigeration products (10%), industrial refrigeration products (7%) and others including ammonia based refrigeration products (7%).

In December 2016, IMRL acquired BRPL, a Chennai based entity with operations of over two decades in the refrigeration industry for a total consideration of Rs.2.26 crore to expand its footprint in the South Indian market.

In November 2017, IMRL raised Rs.23.71 crore through its Initial Public Offer (IPO) and was subsequently listed on NSE – Emerge. IMRL has recently migrated to NSE – Capital Market Segment (Main Board) from October 12, 2020 onwards.

### Brief consolidated financials of IMRL:

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total operating income	131.99	137.97
PBILDT	14.15	12.99
PAT	7.48	5.70
Overall gearing (times)	0.07	0.27
Interest coverage (times)	12.53	7.19

A – Audited

Further, as per the published consolidated financial results for H1FY21, IMRL reported a total operating income of Rs.47.74 crore and PAT of Rs.0.48 crore, compared with a total operating income of Rs.57.58 crore and PAT of Rs.0.55 crore in H1FY20.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

### 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/ ST-CC/PC/Bill Discounting	-	-	-	19.00	CARE BBB+; Stable / CARE A2
Term Loan-Long Term	-	-	June 2026	2.39	CARE BBB+; 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/ST-CC/PC/Bill Discounting	LT/ST	19.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (24-Dec-19)	1)CARE BBB+; Stable / CARE A2 (18-Feb-19)	1)CARE BBB+; Stable / CARE A2 (15-Jan-18) 2)CARE BBB+; Stable / CARE A2 (05-Jan-18)
2.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (18-Feb-19)	1)CARE BBB+; Stable (15-Jan-18) 2)CARE BBB+; Stable (05-Jan-18)
3.	Term Loan-Long Term	LT	2.39	CARE BBB+; Stable	-	1)CARE BBB+; Stable (24-Dec-19)	-	-

## Annexure-3: List of entities consolidated in IMRL as on March 31, 2020

Sr. No.	Name of entity	Domicile	% Shareholding of IMRL as on March 31, 2020	Primary business activity of the entity
1.	Bharat Refrigerations Pvt. Ltd.	India	100%	Manufacturing of refrigeration products

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
2.	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. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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