Edgetech Air Systems Private Limited

January 05, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	46.44 (Reduced from 48.74)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short Term Bank Facilities	19.00 (Enhanced from 10.00)	CARE A3 (A Three)	Revised from CARE A4+ (A Four Plus)
Total Bank Facilities	**65.44 (₹ Sixty-Five Crore and Forty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Edgetech Air Systems Private Limited (EASPL) factors in substantial improvement in operating performance of the company during FY22 (refers to the period from April 01 to March 31) and H1FY23 (refers to the period from April 01 to September 30) driven by uptick in volume as well as sales realization price of air handling units and improvement in overall gearing as a result of subordination of unsecured loans from promoters to the bank debt. The ratings further derive strength from experienced and resourceful promoters and established relationship with reputed Original Equipment Manufacturers (OEM's). However, these rating strengths are partially offset by long operating cycle, exposure to foreign currency fluctuation, volatility in raw material prices, and highly fragmented and competitive nature of industry.

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 and improvement in PBILDT margin above 8.50% on a sustained basis.
- Improvement in capital structure with overall gearing below 0.60x on a sustained 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 2.50x on a sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Improvement in operating performance during FY22 and H1FY23: The total operating income of the company grew by ~39% to Rs.213.93 crore in FY22 (PY: Rs. 153.74 crore) primarily on account of uptick in demand of air handling units. The PBILDT margin of the company deteriorated slightly to 5.40% in FY22 (PY: 6.15%) due to increase in raw material cost (mainly copper, steel and aluminium). However, despite decline in the PBILDT margin, the PAT margin of the company improved marginally to 1.35% in FY22 (PY: 0.94%) due to decrease in depreciation and interest cost as a percentage of total operating income due to increase in scale of operations in FY22. During H1FY23, the total operating income of the company grew by ~50% to Rs.118.45 crore (PY: Rs.79.21 crore) primarily due to low base in H1FY22 on account of disruption of operations a s a result of second wave of covid-19. Further, the PBILDT margin of the company declined to 5.62% (PY: 6.43%) primarily on account of lower travelling expenses booked by the company in H1FY22. However, during H1FY23, the PAT margin of the company improved to 2.11% (PY: 1.82%). Going forward, CARE expects the PBILDT margin of the company to remain in the range of 5%-6%.

Improvement in overall gearing: The overall gearing of the company improved drastically to 1.24 times (PY: 3.81 times) owing to unsecured loans from promoters to the tune of Rs.18.53 crore being treated as quasi equity as per latest sanction

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

letter terms. The debt coverage indicators of the company stood moderate as reflected by PBILDT interest coverage of 1.85x (PY: 1.46x) and total debt/GCA of 10.79x (PY: 19.41x) in FY22.

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 23 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.

Key rating weaknesses

Long Operating cycle: The company had a long operating cycle of 120 days (PY: 150 days) for FY22 due to the working capital-intensive nature of the business. The company is a pre-approved vendor with many EPC players and other corporates including Airport Authority of India, GMR group, and Voltas, 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 also remained high at 121 days (PY: 180 days) for FY22. A large part of the inventory has been funded through unpaid creditors.

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.

Fragmented and Competitive Nature of HVAC Industry: HVAC (Heating Ventilation and air conditioning) 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.

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: Adequate – The liquidity profile of the company is adequate as reflected by projected gross cash accruals to the tune of Rs.6.50 crore in FY23 against scheduled debt repayments to the tune of Rs.2.69 crore in FY23. Further, the average utilization of working capital borrowings stood moderate at ~59% for the trailing 12 months ended October 31, 2022. Further, EASPL had free cash and bank balance to the tune of Rs.1.54 crore as on September 30, 2022. The company is projected to incur a capex of Rs.1.72 crore in FY23 pertaining to regular maintenance which shall be entirely funded through term loan of Rs.1.72 crore (sanctioned in July, 2022).

Analytical approach: Standalone

Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments

Manufacturing Companies

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 (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (P)
Total operating income	153.74	213.93	118.45
PBILDT	9.46	11.55	6.66
PAT	1.44	2.88	2.51
Overall gearing (times)	1.40	1.24	0.96
Interest coverage (times)	1.46	1.85	2.52

A: Audited, P: Provisional

Status of non-cooperation with previous CRA: Brickwork vide P.R. dated September 26, 2022.

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	40.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC		-	-	-	19.00	CARE A3
Term Loan-Long Term		-	-	August, 2028	6.44	CARE BBB-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	40.00	CARE BBB-; Stable	-	1)CARE BB+; Stable (17-Feb-22)	1)CARE BB+; Stable (04-Feb-21)	1)CARE BB+; Stable (06-Jan-20)
2	Non-fund-based - ST-BG/LC	ST	19.00	CARE A3	-	1)CARE A4+ (17-Feb-22)	1)CARE A4+ (04-Feb-21)	1)CARE A4+ (06-Jan-20)
3	Term Loan-Long Term	LT	6.44	CARE BBB-; Stable	-	1)CARE BB+; Stable (17-Feb-22)	1)CARE BB+; Stable (04-Feb-21)	1)CARE BB+; Stable (06-Jan-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities- Not applicable

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

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

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

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

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