

Iclean Hollow Metal Systems Private Limited

January 14, 2021

Rating

Facilities *	Amount (Rs. crore)	Rating ^[1]	Rating Action
Long Term Bank Facilities	7.09	CARE A (CE); Stable [Single A (Credit Enhancement); Outlook: Stable]	Assigned
Long Term Bank Facilities	10.00	CARE A (CE); Stable [Single A (Credit Enhancement); Outlook: Stable]	Reaffirmed
Long Term / Short Term Bank Facilities	8.00	CARE A (CE); Stable / CARE A2+ (CE) [Single A (Credit Enhancement) ; Outlook: Stable/ A Two Plus (Credit Enhancement)]	Assigned
Short Term Bank Facilities	2.00 (Reduced from 6.00)	CARE A2+ (CE) [A Two Plus (Credit Enhancement)]	Reaffirmed
Total Bank Facilities	27.09 (Rs. Twenty-Seven Crore and Nine Lakhs Only)		

Details of instruments/facilities in Annexure-1

*The bank facilities of Iclean Hollow Metal Systems Private Limited (IHMS) are backed by unconditional and irrevocable corporate guarantee extended by Integrated Cleanroom Technologies Private Limited rated CARE A; Stable / CARE A2+

Unsupported Rating ^[2]	CARE BBB-/CARE A3 (Triple B Minus/ A Three)
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Note: Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The ratings assigned to the bank facilities of Iclean Hollow Metal Systems Private Limited (IHMS) are based on credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by Integrated Cleanroom Technologies Private Limited (ICTL) to the bank facilities of IHMS.

Detailed Rationale & Key Rating Drivers of Integrated Cleanroom Technologies Private Limited

The ratings assigned to the bank facilities of Integrated Cleanroom Technologies Private Limited (ICTL) continues to derive strength from experience of management with established track record, technical support from a well-established Japanese player - Takasago Thermal Engineering Company Limited (TTE), comfortable capital structure, reputed, diversified clientele base with moderate order book position and comfortable liquidity position. The rating strengths are, however, tempered by decline in total operating income albeit stable profitability margins during FY20 (refers to the period April 01 to March 31), elongated collection period, presence in moderately competitive industry and margins being susceptible to increase in raw material prices.

Key Rating drivers of Iclean Hollow Metal Systems Private Limited i.e. for Unsupported Rating

The unsupported ratings assigned to the bank facilities of Iclean Hollow Metal Systems Private Limited (IHMS) takes into account experienced promoters with established track record and being a subsidiary of ICTL, reputed and diversified clientele base with moderate order book position, stable total operating income and profitability margins during FY20 (refers to the period April 01 to March 31). The rating strengths are, however, tempered by modest scale of operations, leveraged capital structure, weak debt coverage indicators, presence in moderately competitive industry and margins being susceptible to steel prices.

Key Rating Sensitivities (ICTL)

Positive Factors

- Increase in scale of operations marked by total operating income increasing beyond Rs. 700 crore while maintaining PBILDT margin at 15% and above on a sustained basis
- Shortening of collection days to less than 90 days in future years

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

^[2] As stipulated vide SEBI circular no SEBI/HO/MIRSD/DOS3/CIR/P/2019/70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).

Negative Factors

- Elongation of operating cycle beyond 150 days in future years
- Deterioration in TD/GCA beyond 3x in future years

Detailed description of the key rating drivers (ICTL)**Key Rating Strengths****Majority stake being held by well-established Japanese player and the synergies derived therefrom:**

Takasago Thermal Engineering Company Limited (TTE) holds 57% stake in ICTL, making it the biggest shareholder of ICTL. TTE was established in 1923 and provides comprehensive system engineering services with a focus on Heating, Ventilation and Air Conditioning (HVAC) systems. TTE being a well-established player in executing projects around the world has brought refined skills and technical know-how to ICTL helping it to increase its presence in the world market. With the support of TTE, ICTL continue to improve its market share in the cleanroom industry.

Experienced promoters with established track record

ICTL was incorporated in 2002 by Mr. K. Gopi and others. Mr. Gopi (Managing Director) has more than two decades of experience which includes around 12 years in the clean room industry. The other promoters of the company, Mr. U Srinivasa Murthy and Mr. D Narendra also have experience of around two decades. All the promoters & directors are actively involved in the day to day operations of the company and are supported by experienced professionals under various departments.

Comfortable financial risk profile

At consolidated level, the financial risk profile of the company remained comfortable marked by overall gearing of 0.28x as on March 31, 2020 (0.34x as on March 31, 2019). The marginal improvement in overall gearing is on account of accretion of profits to the net worth. Further, the debt coverage indicators represented by total debt to GCA and interest coverage ratio continued to remain comfortable. The total debt to GCA has marginally improved from 1.93x during FY19 to 1.76x during FY20 due to improvement in cash accruals. The interest coverage ratio marginally deteriorated from 6.86x during FY19 to 6.65x during FY20 owing to decrease in PBILDT levels in absolute terms.

Reputed and diversified clientele base with moderate order book position

ICTL caters to clientele from various industries such as pharmaceutical, biotechnology, healthcare, microelectronics, food & beverage, data center, aviation, defense, space & technology and automobile sectors. The sales are approximately 50% to pharma, biotechnology 20%, defense 20%, food & beverage 5% and the balance 5% from other industries.

ICTL caters to some of the reputed names in pharmaceutical industry and biotechnology laboratories who have been associated for more than one decade and ICTL has been receiving repeat orders on a regular basis.

Furthermore, the outstanding order book position of ICTL (standalone) stood at Rs. 427.37 crore as on December 31, 2020. ICTL's order book is for both turnkey projects and manufacturing & installation. Majority of the orders are from pharmaceuticals companies and the same is expected to be completed within next 6-18 months.

Stable Industry Outlook

The increasing demand from end-users such as the pharma, medical, semiconductor, food, research and automotive industry is expected to fuel the growth. Particularly in pharma and biotechnology industry, cleanroom technology is crucial for the manufacture of sterile pharmaceutical products. Overall drivers of demand for cleanroom technology in the pharma industry include the generally healthy growth of the industry, increasingly strict regulatory requirements, the increasing potency of many new small-molecule and biologic drugs that require special containment systems, operating procedures and safety requirements. With increasing regulatory framework for quality products and capex envisaged in pharmaceutical industry, the demand for cleanrooms is expected to grow. Apart from this, demand from other sectors like food processing, retail segment, scientific research side is expected to increase.

Key Rating Weaknesses**Decline in total operating income albeit stable profitability margins**

At consolidated level, the total operating income (TOI) of ICTL declined by ~11% from Rs. 487.97 crore during FY19 to Rs. 435.93 crore during FY20. The outbreak of Covid-19 was closely followed by a nation-wide lockdown to contain the pandemic which has severely impacted the sales in March 2020 that further worsened in Q1FY21. On account of decline in TOI, PBILDT level in absolute numbers has decreased from Rs. 65.69 crore during FY19 to Rs. 58.55 crore during FY20. However, PBILDT margin remained constant at 13.43% during FY20 vis-à-vis 13.46% during FY19. The margins associated with each order varies with the size and from client to client. The company has executed orders which has fetched better margins during FY20. Further, PAT margin improved from 6.39% during FY19 to 7.07% during FY20 on account of change in tax rates by the Govt. of India.

Elongated collection period

A cleanroom equipment is primarily made of galvanized iron sheets and aluminum sheets which are procured with a credit period of 45 to 75 days. Gestation period for the projects vary from 9 months to 3 years and the invoice for the whole project is raised at the time of initiating works for the project. The company allows 60 days credit period for the material supplied and the balance payment is received as and when the project is handed over to the client which varies from 9 months to 3 years, leading to an overall receivables turnover of 120 to 150 days.

Moderately competitive industry albeit margins are susceptible to increase in raw material costs

Clean room industry is characterized by few small players competing amongst each other. However, the company majorly caters to reputed players in the pharmaceutical industry wherein the companies need to adhere with international standards such as USFDA, EDQM etc. in order to maintain the aseptic and sterile environment. As the company is providing unique solution and operating in niche segment, the number of players providing such technology services are limited.

These products are primarily made of galvanized iron sheets and aluminum sheets. Further, the company has reduced its imports from 14% during FY19 to 5% during FY20. Majorly 95% of the raw materials were procured from indigenous market during FY20. ICTL margins are exposed to raw material price fluctuations as it does not have price variation clause included in the orders which makes the margins susceptible to the change in the prices of key raw materials primarily steel.

Impact of Covid-19

All the production units were closed from March 22, 2020 to May 02, 2020 during Covid lockdown period. During the period May 02, 2020 to May 31, 2020, the units were operating at 30% manpower and from June 01, 2020 onwards, all the manufacturing units were working with full manpower.

In March and April 2020, during the first and second lockdowns, the transportation came to a standstill which affected the movement of material, both raw materials and finished goods. However, subsequently, things have normalized. Most of the raw materials are procured domestically and there are no raw material imports from China. Thus, the company did not face any issues on procurement front once the lockdowns were lifted.

Liquidity of ICTL – Adequate

The liquidity profile of the company is adequate. ICTL has been generating sufficient cash accruals vis-à-vis repayment obligations. At consolidated level, the company had a healthy unencumbered cash balance of Rs. 23.31 crore as on March 31, 2020. The current ratio of ICTL stood at 1.75x as on March 31, 2020. The net cash flow from operations stood at Rs. 44.98 crore in FY20 which was adequate to meet its incremental working capital needs in the immediate future. Also, ICTL has not availed any moratorium which was provided as a part of RBI Covid-19 regulatory package. Over and above this, ICTL has substantial amount of unutilized credit lines, which acts as liquidity cushion. The company at standalone level had cash and bank balance Rs.27.55 crore as on September 30, 2020. Considering the cash accruals generated during the past and the current performance, it is expected that the debt obligations could be met comfortably.

Analytical approach:

Credit Enhanced (CE) Ratings: Assessment of the consolidated financials of the Guarantor (i.e. ICTL). CARE has based its rating on the assessment of the guarantor, Integrated Cleanroom Technologies Private Limited which has provided an unconditional and irrevocable corporate guarantee for the entire sanctioned bank facilities of IHMS. The subsidiaries considered in ICTL's consolidation are ICTL Precoat Panels Private Limited, I Pharrm Process Technologies Private Limited, I-Clean hollow Metal Systems Private Limited, I-Clean technologies Inc. USA as they operate in the same line of business and have financial and operational linkages. CARE has also factored the demonstrated track record of support provided by Takasago Thermal Engineering Company Limited (TTE). ICTL has been receiving strong support from TTE both in terms of technical as well as financial support.

Unsupported Ratings: Standalone assessment of IHMS, factoring linkage with its parentage of ICTL which has also extended need-based financial support.

Applicable Criteria:

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

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

[Rating Methodology-Manufacturing Companies](#)

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

[Liquidity analysis of Non-financial sector entities](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

[Criteria for Short term Instruments](#)

[Rating Credit Enhanced Debt](#)

About the Company– Integrated Cleanroom Technologies Private Limited

Integrated Cleanroom Technologies Private Limited (ICTL), erstwhile Integrated Cleanroom Technologies Limited was incorporated in 2002 by Mr. K. Gopi and others. During February 2014, the company was converted from public limited to private and consequently the name of the company was changed to the current nomenclature. ICTL is engaged in manufacturing of prefabricated modular clean room, clean room equipment and also into execution of turnkey projects for clean rooms. The company has established manufacturing facilities in Gundlapochampally, Hyderabad with production capacity of 4,50,000 square meters. Takasago Thermal Engineering Company Limited (TTE) is the parent company which holds 57% shares in ICTL.

About the Company– Iclean Hollow Metal Systems Private Limited

Incorporated in 2015, Iclean Hollow Metal Systems Private Limited (IHMS) was promoted by Mr. K. Gopi. Mr. Gopi, Managing Director, has more than two decades of experience which includes over a decade in the clean room industry. IHMS is engaged into manufacturing of various types of doors which has applications in commercial sector (for cleanroom applications, fire applications, etc.), residential sector and industrial sector. Some of the types of doors manufactured by the company are high speed roll up door, sectional door, rolling shutters, docking systems, foldable doors, hollow metal door frames, etc. Further, the manufacturing facility of IHMS is located in Anumanchipalli, Visakhapatnam.

Brief Financials (ICTL-Consolidated) (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	487.97	435.93
PBILDT	65.69	58.55
PAT	31.19	30.84
Overall gearing (times)	0.34	0.28
PBILDT Interest coverage (times)	6.86	6.65

Brief Financials (IHMS- Standalone) (Rs. crore)	FY19 (A)	FY20(A)
Total operating income	73.27	71.57
PBILDT	5.82	6.34
PAT	2.42	2.23
Overall gearing (times)	2.99	2.39
Interest coverage (times)	2.75	2.43

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Annexure 2

Covenants of rated instrument / facility: Not Applicable

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	-	-	-	10.00	CARE A (CE); Stable
Non-fund-based - ST-Letter of credit	-	-	-	2.00	CARE A2+ (CE)
Un Supported Rating- Un Supported Rating (LT/ST)	-	-	-	0.00	CARE BBB- / CARE A3
Non-fund-based - LT/ST-Bank Guarantees	-	-	-	8.00	CARE A (CE); Stable / CARE A2+ (CE)
Fund-based - LT-Term Loan	-	-	April 2025	7.09	CARE A (CE); 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	10.00	CARE A (CE); Stable	-	1)CARE A (CE); Stable (10-Dec-19) 2)CARE A (SO); Stable (17-Jun-19)	1)CARE A (SO); Stable (03-Oct-18)	1)CARE A (SO); Stable (04-Jan-18)
2.	Non-fund-based - ST-Letter of credit	ST	2.00	CARE A2+ (CE)	-	1)CARE A2+ (CE) (10-Dec-19) 2)CARE A2+ (SO) (17-Jun-19)	1)CARE A2+ (SO) (03-Oct-18)	1)CARE A2+ (SO) (04-Jan-18)
3.	Un Supported Rating- Un Supported Rating (LT/ST)	LT/ST	0.00	CARE BBB- / CARE A3	-	1)CARE BBB- / CARE A3 (10-Dec-19)	-	-
4.	Non-fund-based - LT/ST-Bank Guarantees	LT/ST	8.00	CARE A (CE); Stable / CARE A2+ (CE)	-	-	-	-
5.	Fund-based - LT-Term Loan	LT	7.09	CARE A (CE); Stable	-	-	-	-

Annexure 3: 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.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
4.	Non-fund-based - ST-Letter of credit	Simple
5.	Un Supported Rating-Un Supported Rating (LT/ST)	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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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