Edgetech Air Systems Private Limited

February 17, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	48.74 (Enhanced from 38.74)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	10.00	CARE A4+ (A Four Plus)	Reaffirmed
Total Bank Facilities	**58.74 (Rs. Fifty-Eight Crore and Seventy-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Edgetech Air Systems Private Limited (EASPL) continues 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 steady 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 and debt coverage indicators 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 151 days (PY: 141 days) for FY21 (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 (rated CARE AA+; Negative/CARE A1+), 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 180 days (PY: 151 days) for FY21. A large part of the inventory has been funded through unpaid creditors which is in line with the industry trend.

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 3.81x (PY: 3.70x) as on March 31, 2021. The debt profile of the company is characterized by working capital borrowings of Rs.32.66 crore (46.44% of total debt), term loans/vehicle loans of Rs.8.69 crore (12.36% of total debt), unsecured loans from promoters and related parties of Rs.20.08 crore (28.55% of total debt), and L.C. acceptances to the tune of Rs.8.90 crore (12.65% of total debt) as on March 31, 2021. Unsecured loans from promoters do not have a defined repayment structure and are availed at an interest rate of 9% per annum. Other debt coverage indicators moderated slightly as reflected by PBILDT interest coverage ratio of 1.52x (PY: 1.65x) and total Debt/GCA of 26.34x (PY: 20.63x) in FY21. As on December 31, 2021,

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

unsecured loans from promoters and related parties stood at Rs.23.91 crore (Rs.14.06 crore from directors and relatives and remaining Rs.9.85 crore from corporates).

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.

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 22 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.

Steady operational performance: The total operating income of the company declined marginally by 4.66% to Rs.154.00 crore in FY21 (PY: Rs.161.53 crore) driven by decline in revenue contribution from sale of air washer and fan coil units. The PBILDT margin of the company improved marginally to 6.39% (PY: 5.92%) in FY21 due to decrease in employee salary and wages as a percentage of total operating income. However, the PAT margin of the company declined marginally to 0.94% (PY: 1.03%) during FY21 on account of increase in interest expense during FY21. During 9MFY22 (refers to the period from April 01 to December 31), the total operating income of the company grew by 32.15% to Rs.131.01 crore (PY: Rs.99.14 crore) driven by increase in revenue contribution from air handling units, growth in volume and to some extent increased raw material prices which the company has been able to pass on to some extent. However, the PBILDT margin of the company declined to 5.24% (PY: 5.88%) in 9MFY22 on account of increase in cost of material as a percentage of total operating income from 75.37% in FY20 to 77.12% in FY21. Consequently, the PAT margin of the company declined to 1.01% (PY: 1.31%) during 9MFY22.

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 remains adequate with projected gross cash accruals to the tune of Rs.3.50 crore in FY22 against scheduled repayment of Rs.2.31 crore in FY22. Further, average utilization of working capital borrowings stood around 85% for the trailing 12 months ended January, 2022. The company is projected to incur capex of Rs.1.00 crore pertaining to regular maintenance which shall be funded through internal accruals.

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 (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (P)
Total operating income	161.53	154.00	131.01
PBILDT	9.55	9.84	6.85
PAT	1.66	1.45	1.32
Overall gearing (times)	3.70	3.81	3.85
Interest coverage (times)	1.65	1.52	1.63

A: Audited, P: Provisional

Status of non-cooperation with previous CRA: Brickwork vide PR dated October 12, 2021.

Any other information: Not applicable

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	40.00	CARE BB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	10.00	CARE A4+
Term Loan-Long Term		-	-	December, 2026	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	40.00	CARE BB+; Stable	-	1)CARE BB+; Stable (04-Feb-21)	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+ (04-Feb-21)	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 (04-Feb-21)	1)CARE BB+; Stable (06-Jan-20)	1)CARE BB+; Stable (01-Feb-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / 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 instrument: CARE Ratings Ltd. 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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