Electro Pneumatics and Hydraulics (India) Private Limited

April 19, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	3.90	CARE A-; Positive (Single A Minus; Outlook: Positive)	Assigned
Long Term / Short Term Bank Facilities	15.00 (Enhanced from 11.00)	CARE A-; Positive / CARE A2+ (Single A Minus; Outlook: Positive/ A Two Plus)	Reaffirmed
Short Term Bank Facilities	43.00	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	**61.90 (Rs. Sixty-One Crore and Ninety Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed its ratings on the bank facilities of Electro Pneumatics and Hydraulics (India) Pvt. Ltd. The ratings continue to consider promoters' long-standing experience and company's expertise in providing customized metal forming products with strong research and development capabilities which led to diversified product portfolio having wide applications across industries and diversified customer base. Further, the company has satisfactory orderbook position providing short term revenue visibility along with comfortable capital structure and debt coverage metrics.

The ratings strengths are partially offset by its moderate scale of operations, moderate and volatile profitability as well as elongated working capital cycle with volatility in operational performance majorly on account of order driven business which forms substantial portion of the revenue.

Rating Sensitivities

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

- Sustained improvement in the scale of operations with total operating income (TOI) over Rs.275 crore coupled with operating margins (PBILDT Margin) of around 14%-15% without any major deterioration in capital structure and debt coverage metrics. Also, the receipt of continuous key defence orders as envisaged will be key monitorable.

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

- Any un-envisaged debt programme leading to deterioration in capital structure, particularly with overall gearing of the company exceeding 0.60-0.80 times.
- PBILDT margin falling to below 9% on a sustained basis leading to modest gross cash accrual (GCA).
- Sustained elongation of working capital cycle of the company beyond 180 days resulting in high utilization in fund based working capital limits.

Outlook: Positive

Revision in the outlook from 'Negative' to 'Positive' underscores improvement in the business risk profile of the company with expectations of significant scaling up of operations backed by increasing orders and schedules from its customers. Further, with improvement in execution of defence orders, the company has been able to improve its operating profitability which is expected to continue at around 14%. CARE also believes amidst improvement in its market position and operational performance, the company is expected to sustain its healthy capital structure and debt coverage metrics.

The outlook may be revised to 'Stable' in case the company's business risk profile does not strengthen as envisaged. Further any significant debt programme either to manage incremental working capital requirements and/or capital expenditure (capex), may also lead to revision of outlook to 'Stable'.

Detailed description of the key rating drivers

Key Rating Strengths

Promoters' long-standing experience and expertise in providing customized metal forming products and special purpose machinery for strategic projects with strong research and development capabilities: The company is jointly spearheaded by Mr. Ashley Rasquinha (Joint Managing Director, JMD) [B.E, M.S (Mech. Computer Engg.) U.S.A]., and Ms. Ingrid Rasquinha (JMD) [B.E, M.S (Mech. Engg.) U.S.A]. The company is ably supported by Director Operations and Marketing - Mr Prashant Gadepalli [B.E M.S (Mech Engg) U.S.A], and Mr. Umesh Jahagirdar [General Manager Finance & Accounts] who is professionally qualified and has long experience of working with multinational companies across globe and handled many verticals namely Fast Moving Consumer Goods, Oil and Gas, Auto components and capital goods etc. Majority of second tier management, associated with EHIPL for more than a decade, are qualified and experienced professionals in their

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

respective fields. EHIPL has accreditation of introducing many products for the first time in the country and continues to be one of the major beneficiaries of 'Make in India' and 'AtmaNirbhar Bharat' campaign especially for special purpose machinery for defense and strategic projects.

Diversified product portfolio having wide application across industries and diversified customer base: The company's revenue segments are divided among machine manufacturing (MMD), component manufacturing (CMD), fluid power and strategic power (SPD) divisions along with spares and services income. The company is supported by its in-house research and development (R&D) team which has developed various products that are the first to be manufactured in India. Its foray into defense sector through its strategic project division which also provides better margins to the company is strongly supported by its R&D team. Apart from defense and automotive sector, its products find application across varied industries such as white goods, electronics, and process plant, chemical plant, cutting tools, railways, shipbuilding, power transmission and other industries. The clientele base of the company includes well established and large sized companies including both private sector companies and government undertakings such as Defence Research and Development Organisation (DRDO), Indian Navy, Goa Shipyard Limited, etc.

Satisfactory orderbook providing short term revenue visibility: The company has improved its orderbook position with receipt of various orders in MMD and SPD divisions which caters towards defense contracts. Further, the company has also been beneficiary of Ministry of Defense's scheme to promote MSMEs in the defense supply chain. As on January 31, 2022, the company has outstanding orderbook position of Rs.192.24 crore improving from Rs.166.92 crore as on Feb 28, 2021. Majority of the execution of the current orders in hand is expected by end of FY23. Furthermore, the company also has schedules for CMD division from automobile manufacturing sector.

Healthy capital structure and debt coverage metrics: The company has comfortable capital structure with healthy networth of Rs.105.79 crores (Rs. 101.48 crores) and overall gearing of 0.28x (0.29x) as on March 31, 2021 (2020); and are estimated to further improve as on FY22 ending supported by efficient management of working capital requirements through credit from suppliers and internal accruals along with moderate reliance on debt.
Improvement in the profitability margin in FY21 resulted in improvement in debt coverage metrics with PBILDT interest coverage improving from 3.73x in FY20 to 7.93x in FY21 and total debt to gross cash accrual (TDGCA) from 3.70x in FY20 and 3.03x in FY21. The same is estimated to improve further in FY22 with reduction in debt along with continued profitability margin.
Going forward with no major incremental debt and expected improvement in gross cash accruals, the company's financial risk profile is expected to remain healthy.

Key Rating Weaknesses
Moderate scale of operations: The company achieved revenue of Rs.173 crore in 11MFY22 and is estimated to book TOI of around Rs.190-200 crore in FY22. Estimated growth in TOI of ~48% in FY22 year on year is majorly on account of improved execution with limited operational restrictions unlike in FY21 due to COVID-19. Further, the company had received few key orders and improved its execution in both MMD and SPD divisions along with improved schedules from automobile sector in CMD division. On the back of current orders in hand of Rs.192.24 crore along with schedules for auto component manufacturing, EHIPL is expected to improve its scale of operations in FY23, yet its scale of operations are expected to remain moderate. Also, certain key orders in defence segment are expected to be bagged over the next 12 months by the company.

Elongated working capital cycle: EHIPL has an elongated working capital cycle with working capital cycle of 197-213 days in FY20-FY21 majorly on account of high average inventory period and moderately high average collection cycle. The working capital cycle continues to remain elongated in FY22 with estimated 160-170 days on account, though improving partially from past two fiscal years. The order execution timeline ranges between 3-12 months depending upon the type of machinery ordered and the company procures raw material in bulk. Accordingly, the company's working capital cycle may continue to remain long.

***Moderate and volatile profitability*:** The company's operating profitability is heavily dependent upon the revenue mix of different segments. PBILDT margin improved in FY21 to 14.13% from significant dip observed over the three fiscals through FY20 in the range of 8%-11%. Low execution of defense orders in FY19 and FY20 kept the margin suppressed which turned around in FY21 and continued in FY22. The continued favourable revenue mix has kept PBILDT margin at 13.77% in 11MFY22 and is estimated to remain at similar level for FY22. Due to continued revenue mix, the company's operating profitability is expected to sustain going forward, however volatility can be witnessed in case of dip in execution in SPD division.

Liquidity: Adequate
The company has adequate liquidity supported by heathy cushion between GCA and term loan obligations; and moderate cash credit utilization. EHIPL is estimated to generate GCA of Rs.21-23 crore in FY22 in the range of Rs.25-30 crore over the medium term against negligible vehicle loan obligations. The company is able to manage its working capital requirements through credit from suppliers, mobilization advances and internal accruals efficiently and accordingly relies moderately on cash credit (average of last 12 months' maximum utilization through February 2022 was 52.23% while average utilization during the month was 21.32%). The current ratio and overall gearing ratio were 1.95x and 0.28x respectively as on March 31, 2021 which provide the company headroom to contract additional debt if required.

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
EHIPL was established in 1972 as a partnership firm and was converted into a private limited company in 1983. EHIPL designs and manufactures standard and customized metal forming equipment and also provides services for the production of formed parts. The products manufactured by EHIPL are tailor-made and due to their typical nature, the company mainly concentrates on conceptualization and detailed designing of the products. The company has got recognition for its in-house Research & Development unit from Ministry of Science and Technology (Government of India).

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	28-02-2022 (UA)
Total operating income	142.93	139.68	172.99
PBILDT	11.52	19.73	23.82
PAT	1.96	4.31	13.26
Overall gearing (times)	0.29	0.28	0.16
Interest coverage (times)	3.73	7.93	29.64

A: Audited; UA: Un-Audited
Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Not Applicable

Complexity level of various instruments rated for this company: Annexure 3

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/ ST-Working Capital Limits	-	-	-	-	15.00	CARE A-; Positive / CARE A2+
Non-fund-based - ST-Letter of credit	-	-	-	-	1.00	CARE A2+
Non-fund-based - ST-Bank Guarantee	-	-	-	-	42.00	CARE A2+
Fund-based - LT-Term Loan	-	-	-	NA	3.90	CARE A-; Positive

NA=Not Applicable; Term loan (Guaranteed Emergency Credit Line) has been sanctioned but not availed yet. Once availed, it has 12 months of moratorium and 36 monthly principal instalments after moratorium ends.

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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	15.00	CARE A-; Positive / CARE A2+	1)CARE A-; Positive / CARE A2+ (01-Apr-22)	1)CARE A-; Negative / CARE A2 (06-Apr-21)	1)CARE A-; Negative / CARE A2 (01-Apr-20)	-
2	Non-fund-based - ST-Letter of credit	ST	1.00	CARE A2+	1)CARE A2+ (01-Apr-22)	1)CARE A2 (06-Apr-21)	1)CARE A2 (01-Apr-20)	-
3	Non-fund-based - ST-Bank Guarantee	ST	42.00	CARE A2+	1)CARE A2+ (01-Apr-22)	1)CARE A2 (06-Apr-21)	1)CARE A2 (01-Apr-20)	-
4	Fund-based - LT-Term Loan	LT	3.90	CARE A-; Positive				

* Long Term / Short Term

Annexure 3: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT/ ST-Working Capital Limits	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure 4: 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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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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