Patels Airtemp (India) Limited

December 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	167.17	CARE BBB+; Stable	Reaffirmed
Long-term / Short-term bank facilities	75.00	CARE BBB+; Stable / CARE A2	Reaffirmed
Short-term bank facilities	7.00	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Patels Airtemp (India) Limited (PAIL) continue to derive strength from the vast experience of its promoters along with established track record of the company in the process equipment industry which is supported by its various product certifications and reputed clientele. The ratings also factor in PAIL's moderate scale of operations and healthy orderbook position.

The ratings, however, continue to be constrained on account of PAIL's moderate profitability, exposure to fluctuations in raw material prices and foreign exchange rates along with its large working capital requirement. The ratings are further constrained due to its moderately leveraged capital structure and debt coverage indicators.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in its scale of operations (total operating income [TOI] and tangible net worth [TNW]) along with improvement in its profit before interest, lease rentals, depreciation and taxation (PBILDT) margin to more than 15% on a sustained basis.
- Improvement in the operating cycle to less than 120 days on a sustained basis.
- Improvement in debt coverage indicators with total debt (TD)/gross cash accruals (GCA) to below 2x and interest coverage above 8x while maintaining overall gearing below 0.50x on a sustained basis.

Negative factors

- Deterioration in the overall gearing above 1.5x and TOL/TNW beyond 2x on a sustained basis.
- Decline in the PBILDT margin below 9% along with deterioration in its debt coverage indicators on a sustained basis.
- Significant elongation in its working capital cycle impacting its liquidity.
- Any major debt-funded capex project.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings') expectations that the company shall continue to benefit from its experienced promoters, long and established track record of operations and reputed clientele.

Detailed description of the key rating drivers

Key strengths

Vast experience of its promoters

The promoters of PAIL have long-standing track-record of more than four decades in the business of design and fabrication of process equipment and engineering goods. Mr. Sanjiv Patel (son of late Mr. Narayanbhai Patel) became the Chairman and Managing Director of PAIL from October 2023 post demise of Mr.Narayanbhai Patel. He has been looking after the overall operations of the company since more than one decade. Mr. Shivang Patel (son of late Mr. Prakash Patel) has also been taking active part in operations. Mr. Apurva V. Shah, Whole-time Director, holds a B.E. (Bachelors in Engineering in Mechanical) and post-graduation degree in Air & Refrigeration. He possesses more than three decades of experience with expertise in Strategic Planning, R & D and Innovation. The Board of PAIL consists of three executive directors and five independent directors.

The management team of PAIL also consists of experienced professionals who have guided the company successfully through various economic cycles.

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

Established track record of operation in process equipment industry and reputed clientele
PAIL has long-standing operational track-record of more than four decades (including the period when it was constituted as a partnership firm) in the business of design and fabrication of process equipment and engineering goods. PAIL's products cater to diverse industries like oil & gas, petroleum refineries, chemicals, pharmaceuticals, fertilizers, refrigeration and air conditioning plants, etc. The company has long and established relationship with its reputed clientele including major oil players. Further, diversification across various industries also mitigates the risk associated with cyclicality in respective industries.
PAIL undertakes tender-based work with large order value, where top five customers contributed around 64% of net sales of PAIL during FY23 as against 80% in FY22. The composition of top five customers keeps changing based on the receipt of tender resulting in lower risk.

Product certification from all major third-party inspection agencies and consultants
PAIL offers customised solution of air cooled and shell type heat exchangers, pressure vessels and special storage tanks for oil and chemical storage. Industrial products of PAIL include shell/tube heat exchangers, air-cooled heat exchangers, pressure vessels surface conductors, oil coolers, etc. PAIL also provides air conditioning solutions to industrial and domestic customers. With PAIL's expertise in shell/tube heat exchangers and air-cooled heat exchangers, it contributed around 89% of the net sales during FY23 as against 97% of the net sales in FY22. The products of PAIL are one of the critical components of oil refineries, nuclear reactors, and power generation facilities where it helps in transfer of heat from one medium to another without mixing the two. PAIL also holds "U", "U2" and "S" stamp authorisation certifications issued by American Society of Mechanical Engineers (ASME) and is the member of Heat Transfer Research Inc. (HTRI), U.S.A., for updating heat transfer technology. The products of PAIL are approved by some of the major third-party inspection agencies and consultants like Bureau Veritas, TUV, Engineers India Ltd., SGS India Pvt. Ltd, etc.

Moderate scale of operations and profitability
During FY23, PAIL's scale of operation remained moderate at ₹282.08 crore as compared with ₹303.60 crore in FY22. However, it reported significant growth of 43% y-o-y in H1FY24 with TOI of ₹168.03 crore (₹116.88 crore in H1FY23). PAIL's growth prospects are linked to the capex cycle of engineering, petroleum and oil & gas industry. The PBILDT margin of PAIL improved by 145 bps from 9.46% in FY22 to 10.92% in FY23 and continued to remain moderate. Further, during H1FY24 as well, the PBILDT margin remained at 9.86% (12.38% in H1FY23).

Healthy orderbook position
PAIL has unexecuted order book on hand of ₹442.83 crore as on October 01, 2023 (₹534.21 crore as on October 01, 2022) translating into order-book to sales ratio of 1.57x, which provides revenue visibility in medium term.

Key weaknesses

Moderately leveraged capital structure and moderate debt coverage indicators
PAIL had a moderate capital structure with overall gearing of 1.17x and TOL/TNW of 1.78x as on March 31, 2023 (1.18x and 1.57x, respectively, as on March 31, 2022), mainly due to reliance on working capital bank borrowings and moderate net worth base of ₹128.81 crore as on March 31, 2023. The debt coverage indicators also remained moderate marked by PBILDT interest coverage ratio of 2.56x and TD/GCA of 9.84x in FY23.
As on September 30, 2023, the overall gearing continued to remain moderate at 1.22x. Also, debt coverage indicators remained moderate marked by PBILDT interest coverage ratio at 2.90x and TD/GCA at 11.17x.

Working capital intensity with elongated collection period
PAIL operates in capital goods industry where work orders are large in size and take 6-18 months for execution. Goods manufactured by PAIL are generally used in large size refining/chemical projects, where customers frequently request PAIL to delay the delivery of the goods due to delay in their project execution, which translates in to higher inventory period. Furthermore, the customers of PAIL retain 5% to 10% of the order value after completion of the order and release it only after successful erection and satisfactory performance of the goods supplied by PAIL resulting in high working capital intensity.
The inventory level of PAIL increased at ₹149.57 crore as on March 31, 2023 as against ₹97.69 crore as on March 31, 2022, mainly to fulfil orders in pipeline and support execution over the next 2-3 quarters. The company purchases certain raw material backed by orders to hedge against raw material fluctuation risk and also maintain inventory before dispatch as the products go through stringent checks from its customers.
The operating cycle of PAIL increased to 233 days during FY23 (FY21: 189 days), mainly due to rise in inventory levels to execute large orders in Q1FY24 and Q2FY24.

Profitability susceptible to volatile raw material prices and foreign exchange fluctuation
Metal (mild-steel as well as stainless-steel) sheets, plates, tubes, pipes and other components are the basic raw materials used by PAIL for fabrication of process equipment. The prices are driven primarily by the existing demand and supply conditions with strong linkages to the global market. The inherent volatility in the prices could impact the company's profitability. However, PAIL has back-to-back arrangement for booking of raw materials on receipt of orders which mitigates the fluctuation risk to some extent.
Furthermore, PAIL also imports some portion of its raw material requirements, whereas exports were nominal at ~2.50% of total gross sales during FY23. Hence, PAIL is exposed to adverse fluctuation in foreign currency exchange rates in absence of an active hedging policy and natural hedge.

Liquidity: Adequate

Despite the high working capital intensity, the liquidity of PAIL is adequate marked by low term debt repayment obligation against moderate cash accruals and moderate working capital limit utilisation. The liquidity is also supported by healthy customer advances of ₹55.08 crore as on March 31, 2023 (₹41.36 crore as on March 31, 2022). PAIL is expected to generate ₹15-20 crore against low debt repayment of ₹1-5 crore in the near term. The average fund-based working capital utilisation remained at 91% for the past 12 months ended September 30, 2023. Cash and bank balance stood healthy at ₹24.31 crore as on March 31, 2023 and ₹14.21 crore as on September 30, 2023.
PAIL's non-fund-based limits mainly include bank guarantee limits that it utilises to provide performance guarantees (to both private and public sector clients), bid-bond guarantees (mainly to government clients) and financial BG for customer advances. Average non-fund-based working capital limits utilisation remained high at 80% for the past 12 months ended on September 30, 2023.

Environment, social, and governance (ESG) risks: Not applicable

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
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial products	Other industrial products

Incorporated in 1973 as Patel Airtemps by Mr. Narayanbhai Patel, PAIL (CINL29190GJ1992PLC01780) is engaged in the business of design and fabrication of process equipment and engineering goods. Later in June 1993, it was converted into limited company and the name was changed its present one. PAIL is engaged in the manufacturing of capital goods equipment like heat exchangers, pressure vessels, air conditioning, refrigeration equipment, etc., and execution of turnkey heating, ventilation and air conditioning (HVAC) projects. It has two manufacturing facilities in Gujarat.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (P)
Total operating income	303.60	282.08	168.03
PBILDT	28.73	30.79	16.56
PAT	12.40	11.19	6.52
Overall gearing (times)	1.18	1.17	1.22
Interest coverage (times)	3.19	2.56	2.90

A: Audited P: Provisional; NA: Not available; Note: 'the above results are latest financial results available'.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instruments / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure 1: Details of instrument/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-Term loan		-	-	31-03-2027	14.17	CARE BBB+; Stable
Fund-based - LT/ ST-Cash credit		-	-	-	75.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT-Bank guarantee		-	-	-	153.00	CARE BBB+; Stable
Non-fund-based - ST-Letter of credit		-	-	-	7.00	CARE A2

Annexure 2: Rating History of 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 2023-2024	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
1	Fund-based - LT/ ST-Cash credit	LT/ST*	75.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (25-Nov-22)	1)CARE BBB+; Stable / CARE A2 (28-Dec-21)	1)CARE BBB+; Stable / CARE A2 (03-Feb-21)
2	Non-fund-based - LT-Bank guarantee	LT	153.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (25-Nov-22)	1)CARE BBB+; Stable (28-Dec-21)	1)CARE BBB+; Stable (03-Feb-21)
3	Non-fund-based - ST-Letter of credit	ST	7.00	CARE A2	-	1)CARE A2 (25-Nov-22)	1)CARE A2 (28-Dec-21)	1)CARE A2 (03-Feb-21)
4	Fund-based - LT-Term loan	LT	14.17	CARE BBB+; Stable	-	1)CARE BBB+; Stable (25-Nov-22)	-	-

* 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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term loan	Simple
2	Fund-based - LT/ ST-Cash credit	Simple
3	Non-fund-based - LT-Bank guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Note on the 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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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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