Ice Make Refrigeration Limited

January 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	56.71 (Enhanced from 1.21)	CARE BBB+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	12.00	CARE BBB+; Stable / CARE A2	Assigned
Long Term / Short Term Bank Facilities	40.00 (Enhanced from 30.00)	CARE BBB+; Stable / CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Ice Make Refrigeration Limited (IMRL) continue to derive strength from the long-standing experience of its promoters in refrigeration equipment industry, diversified product portfolio and its established clientele. The ratings further take into consideration improvement in its total operating income (TOI) and profitability during FY23 (refers to April 01 to March 31) along with its comfortable capital structure and debt coverage indicators and its adequate liquidity on a consolidated basis.

The ratings, however, continue to remain constrained on account of IMRL's moderate scale of operations and networth with stiff competition from organized players, susceptibility of profitability to volatile raw material prices and subdued performance of its wholly owned subsidiary viz. Bharat Refrigeration Private Limited (BRPL) present in same line of business, which however contributes a nominal amount to IMRL's consolidated TOI. Ratings also take cognisance of company's investment into another subsidiary in East India, operations of which are also yet to scale up.

This apart, ratings also take cognizance of implementation and scaling up risk associated with an upcoming large-sized-debt-funded capex for setting up new manufacturing facility and new product lines.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Volume driven growth in TOI of IMRL alongwith ramp up of operations in subsidiaries, resulting in growth in TOI beyond Rs.400 crore along with PBILDT margin of more than 13% and ROCE of over 20%, on sustained basis.
- Sustenance of overall gearing below 0.50x alongwith augmentation of networth base
- Successful implementation and scaling up of operations of the upcoming manufacturing facility of continuous panel within the envisaged time and cost parameters.

Negative factors

- Decline in TOI below Rs.150 crore and/or decline in PBILDT margin below 8%, on a sustained basis.
- Deterioration in overall gearing beyond 1x times on consolidated basis.
- Elongation in working capital cycle to beyond 120 days with increase in external borrowings to fund these requirements.
- Significant delay in completion of upcoming project resulting in time and cost overrun.

Analytical approach: Consolidated,

CARE Ratings Ltd. has considered the consolidated performance of IMRL for analysis purpose. Both the subsidiaries are engaged in similar line of business though cater to different geographies. Furthermore, BRPL is managed by promoters of IMRL, while the newly acquired subsidiary wherein company has a 60% stake is also jointly managed by promoters of IMRL and other party. Furthermore, IMRL has also been providing need-based support to BRPL and is likely to support Ice Best Private Limited (IBPL), if required. The details of Subsidiaries have been mentioned in Annexure: 6.

Outlook: Stable

Stable outlook reflects CARE Ratings' expectations that the company will continue to benefit from the vast experience of its promoters and sustain its financial risk profile in near to medium term, supported by product diversification.

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

Detailed description of the key rating drivers:

Key strengths

Moderate albeit growing scale of operations along with moderate profitability

During FY23, IMRL's Total Operating Income (TOI) (on a consolidated basis) grew by ~52% y-o-y to Rs.312.24 crore (P.Y.206.21 crore) due to healthy growth in sales volume as well as realisation backed by healthy demand across its product portfolio. With increase in TOI, IMRL's PBILDT margin also improved to 10.30% in FY23 from 7.08% in FY22.

During H1FY24, IMRL's TOI further improved to Rs.156.33 crore, as compared to Rs.132.21 in H1FY23, backed by healthy orders on hand. PBILDT margin also continue to remain at 10.27% in H1FY24 as compared to 9.76% in H1FY23 with increase in scale of operations.

CARE Ratings expects IMRL's TOI to grow further in FY24 to around Rs.380 crore, supported by a healthy order book of Rs.156.87 crore as on December 22, 2023, and a majority of IMRL's orders are executed during December – March, just before the onset of summer.

Comfortable leverage and debt coverage indicators, though networth remains limited

IMRL has a comfortable capital structure with overall gearing of 0.06x as on FY23 end (P.Y.: 0.18x) on consolidated basis. Overall gearing is expected to moderate with increase in term loan for capex in current year and increase in working capital borrowings, however, is expected to remain moderate at around 0.70x at FY24 end. Networth base of the entity however remained limited, at Rs.79.58 cr. at FY23 end.

Further, IMRL's debt coverage indictors on a consolidated basis also remain comfortable as indicated by PBILDT interest coverage of 25.70x during FY23 (P.Y.: 8.45 times) and total debt/GCA of 0.20x (P.Y. 1.03x) as on March 31, 2023.

Established and diversified clientele along with diversified product portfolio

Over the years, IMRL has established strong clientele and provides refrigeration solutions to pharmaceuticals, dairy and ice-cream, healthcare, and food products industries. Furthermore, the diversification in IMRL's client profile also remained healthy with top clients contributing only around 20-40% of its total revenue over the last three years ended FY23. Around 70% of IMRL's revenue is generated from direct sales whereas the balance is through its dealers and distributors spread across the country.

In addition, IMRL's product profile is balanced, wherein cold room storage solution contributes highest around 47% in FY23 (P.Y. 50%), as these are generally large ticket size solutions with on-site installation and commissioning requirements, while balance is contributed by other areas of refrigeration. Contribution from commercial refrigeration and other refrigeration products stood at 28% (P.Y. 23%) and 10% (P.Y.12%) respectively of the total sales. The share of transport refrigeration and industrial refrigeration remained stable at 10% and 5% respectively in FY23 (P.Y. 10% and 5% respectively).

Promoters' experience in the refrigeration equipment industry

IMRL's key promoter, Mr. Chandrakant Patel, has over two decades of experience in the refrigeration equipment manufacturing industry. He looks after the overall operations along with co-promoters, Mr. Rajendra Patel & Mr. Vipul Patel, who also have an experience of over two decades in the refrigeration equipment industry. They both look after the production, purchase, accounts, and finance at IMRL.

Key weaknesses

Susceptibility of operating profitability to volatility in input costs

The main raw material used by IMRL in manufacturing comprise of polyurethane (PU) chemical and galvanized steel sheets along with components made from copper and aluminium. Prices of these products are volatile in nature (as PU is a crude oil derivative, while prices of metals are inherently volatile), which exposes IMRL's profitability to adverse movement in these prices. Considering raw material cost constitutes ~75% of Cost of Sales, any adverse variability in the same could affect IMRL's profitability. While IMRL largely operates under fixed price order book wherein it partially books the raw material required in advance to insulate the price volatility risk, it is also required to hold ready inventory of some of these products to cater to the time bound requirement of its clients. The execution cycle of few orders is small and IMRL partially passes on any price increase in newly bagged orders, however, high competitive intensity in the industry acts as a major challenge for its profitability.

Competition from established players and subdued performance of BRPL

Refrigeration equipment industry is majorly characterized by presence of few reputed organized players. These players have higher scale of operations which provides them with better operational and financial flexibility. This also limits the bargaining power of players such as IMRL vis-à-vis its customers, limiting its profitability. IMRL positions itself as a complete solutions provider in the refrigeration equipment business and has been able to gradually grow its TOI over the last few years, which also reflects the increased demand for its products and underlines their quality; however, its scale has remained moderate owing to the competitive industry.

Furthermore, financial performance of IMRL's subsidiary i.e. BRPL, though improved, remained subdued with TOI of Rs.19.77 crore (P.Y.: Rs.14.58 crore) and operating margin of 4.35% (P.Y. 0.07% in FY22). BRPL booked net loss of Rs.0.24 crore (P.Y. net loss of Rs. 0.81 crore) in FY23. Furthermore, company, for geographical expansion, has setup another subsidiary viz. Ice Best Private Limited (IBPL) in East India. It is expected to save logistics cost and expand its presence in Eastern India. The new unit is in collaboration with another person, whereby IMRL holds 60% stake with an investment of around Rs. 2 crore.

Implementation and stabilization risk associated with the ongoing and proposed capex

IMRL has setup Continuous Panel manufacturing plant in Bavla, Gujarat. The total cost of project is of Rs.64.63 cr. funded in debt: equity ratio of 3:1. The financial closure has been achieved. The project cost stands revised from Rs.50 crore considered during last review, owing to increase in land size and machine upgradation.

Of the total cost, around Rs.22 cr. has already been incurred and remaining will be completed by March 2024. The operations are estimated to commence from July 2024.

Apart from this, company is also planning to setup plant for manufacturing glass-based panels from FY25 onwards for which Rs.15 cr. capex is planned to be incurred in FY25, plant is expected to be operational from Q3FY25 onwards. This capex is planned to be funded entirely from internal accruals.

Timely implementation and subsequent stabilisation of the aforesaid debt-funded capex shall remain crucial for the financial risk profile of the entity.

Liquidity: Adequate

IMRL's liquidity remains adequate marked by sufficient cushion in accruals vis-à-vis its repayment obligations and low utilization of its fund based working capital limits with positive cash flow from operations. With improvement in scale, cash flow from operations also improved to Rs.23.92 crore in FY23 as against Rs.8.16 crore in FY22. Average fund-based utilization of working capital limits for the past 12 month ended November 2023 remained lower at around 32%.

The operating cycle of IMRL improved to 64 days in FY23 as compared to 85 days in FY22 on account of improvement in collection period and inventory period. As the industry is dominated by few large players, IMRL extends credit days of around 50 days to its customers. Moreover, seasonality in the business owing to majority of the commissioning during Q4 of a financial year results in higher receivables at the end of the year. IMRL's collection period is offset to a large extent by a credit period of around 50-60 days received from its suppliers. Further, IMRL also maintains an inventory of around 60-80 days to ensure smooth delivery to its customers and to avail quantity discounts from its suppliers. Going forward, the company is expected to generate the internal accruals of Rs. 28-40 crore as against the envisaged annual debt repayment of Rs.1-10 crore.

Applicable criteria

Policy on default recognition
Consolidation
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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Other Industrial Products

Brief Financials- Consolidated (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (Prov.)
Total operating income	206.21	312.24	156.33
PBILDT	14.60	32.15	16.05
PAT	7.32	20.80	9.85
Overall gearing (times)	0.18	0.06	0.35
Interest coverage (times)	8.45	25.70	17.25

A: Audited, Prov: Provisional, NA: Not Available, Note: 'the above results are latest financial results available'

Brief Financials- Standalone (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (Prov.)
Total operating income	200.28	302.72	153.43
PBILDT	14.56	31.35	16.14
PAT	8.10	21.05	10.17
Overall gearing (times)	0.13	0.04	0.27
Interest coverage (times)	9.28	27.37	18.13

A: Audited, Prov: Provisional, NA:Not Available, Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: None

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: Annexure-4

Lender details: Annexure-5

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
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	40.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	12.00	CARE BBB+; Stable / CARE A2
Term Loan-Long Term		-	-	June 2033	56.71	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 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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	40.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (23-Dec-22)	1)CARE BBB+; Stable / CARE A2 (30-Dec-21)	1)CARE BBB+; Stable / CARE A2 (05-Jan-21)
2	Term Loan-Long Term	LT	56.71	CARE BBB+; Stable	-	1)CARE BBB+; Stable (23-Dec-22)	1)CARE BBB+; Stable (30-Dec-21)	1)CARE BBB+; Stable (05-Jan-21)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	12.00	CARE BBB+; Stable / CARE A2				

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple
3	Term Loan-Long Term	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated in IMRL as on March 31, 2023

S. No.	Name of the entity	Domicile	% of shareholding of PMPL	Primary business activity of the entity
1.	Bharat Refrigeration Private Limited	India	100%	Manufacturing of a wide range of refrigeration products
2.	Ice Best Private Limited	India	60%	Manufacturing of a wide range of refrigeration products

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:
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