Edgetech Air Systems Private Limited

February 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	45.39 (Reduced from 46.44)	CARE BBB-; Positive	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	19.00	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Edgetech Air Systems Private Limited (EASPL) factors in improved operational performance during FY23 (refers to the period from April 01 to March 31) marked by steady growth in volumes and sales realizations across all product segments which has continued during H1FY24 (refers to the period from April 01 to September 30), higher capacity utilization, rationalization of inventory levels leading to improved operational cash flows. The ratings favourably factor in improved financial risk profile characterized by low overall gearing as a result of reduction in working capital borrowing level due to substantial liquidation of inventory levels, improved debt coverage indicators and return indicators. The ratings further derive strength from experienced and resourceful promoters and established relationship with reputed Original Equipment Manufacturers (OEM's). However, these rating strengths are partially offset by long albeit improving operating cycle, exposure to foreign currency fluctuation, modest profitability which remain susceptible to volatile raw material prices, and highly fragmented and competitive nature of industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improved demand of heating ventilation and air conditioning components leading to a growth in total operating income and improvement in ROCE above 15% on a sustained basis.
- Improvement in capital structure with overall gearing below 0.60x on a sustained basis

Negative factors

- 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 2.50x on a sustained basis.

Analytical approach: Standalone

Outlook: Positive

The revision in outlook to 'Positive' from 'Stable' is on account of CARE's expectation of sustained improvement in volume growth leading to profitable ramp up of operations with healthy ROCE and liquidity. The outlook may be revised to Stable in case of lower than envisaged improvement in operational and financial indicators.

Detailed description of the key rating drivers:

Key strengths

Improvement in operating performance during FY23 and 9MFY24: The total operating income (TOI) of the company grew by around ~31% to Rs.284.37 in FY23 (PY: Rs.217.91 cr) primarily on account of uptick in demand of air handling units, improved after-sales service efficiency and improved realizations across all its product segments. However, the company experienced a slight dip in profitability margins, as evidenced by 56 bps decline in PBILDT to 4.74% in FY23 (PY: 5.30%) attributed to the company's constrained bargaining power and inability to completely pass on the rise in input prices to end consumers, escalation in freight charges & marketing expenses to Rs.10.67 cr (4.89% of total TOI) during FY23 as against from Rs.7.40cr (2.61% of total TOI) in FY22.

However, despite decline in the PBILDT margin, the PAT margin of the company improved to 1.77% in FY23 (PY: 1.32%) on account of decrease in interest cost as a result of healthy operational cash flows leading to lower working capital borrowing.

9MFY24: The company has achieved TOI of Rs.220.75 cr i.e. 68.75% of projected TOI (9MFY23: Rs.118.45 cr) as around 60% of revenue is contributed during the second half of the financial year.

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

Moderate financial risk profile: The financial risk profile of the company stood moderate as marked by improvement in overall gearing to 0.98x as on March 31, 2023 (PY: 1.32x as on March 31, 2022) on account of reduction in working capital borrowing as on balance sheet date. Moreover, after the subordination of unsecured loan from promoters to the bank debt as per the sanctioned terms in FY22 to the tune of Rs.17.03 crore (as against Rs.18.53 crore earlier) there has been substantial improvement in overall gearing. As on March 31, 2023, total debt of the company reduced and stood at Rs.45.44 cr (PY: Rs.54.52 cr), which primarily comprised of working capital borrowings of Rs.24.18 cr (PY: Rs.36.05 cr) and term debt of Rs.9.44 cr (PY: Rs.10.21 cr). The debt coverage indicators of the company stood moderate as reflected by PBILDT interest coverage of 2.54x (PY:1.85x) and total debt/GCA of 6.16x (PY:11.10x) in FY23 owing to healthy operational cash flows.

Experienced and resourceful promoters: EASPL, founded in January 2005 by Mr. R.P. Goel, is currently under the leadership of Chairman Mr. R.P. Goel and Managing Director Mr. Amit Goel (son of Mr. R.P. Goel.). Mr. R.P. Goel, holding a post-graduate degree from Punjab University, brings over 40 years of valuable industry experience. Mr. Amit Goel, a graduate from Delhi University, contributes around 23 years of expertise to the HVAC sector. The company's founders have consistently supported EASPL by injecting funds whenever necessary. The family's involvement has expanded with the addition of Mr. Aditya Goel (son of Mr. Amit Goel), pursuing marketing studies in a U.S. university, and Ms. Shweta Goel (wife of Mr. Amit Goel), a commerce graduate who oversees the company's administrative HR functions.

Established relations with reputed OEM's: Since 2005, EASPL has been actively engaged in the manufacturing of HVAC systems, cultivating strong partnerships with well-known Original Equipment Manufacturers (OEMs) such as Blue Star, Voltas, and others. In addition to manufacturing, the company has demonstrated its capabilities by effectively executing installations for clients across diverse sectors, encompassing hotels, pharmaceuticals, hospitals, telecom, automobile, and education.

Key weaknesses

Long Operating cycle: Due to the working capital-intensive nature of its operations, the company's operating cycle, though showing improvement, remained relatively high at 89 days in FY23 (PY: 122 days). The company is a pre-approved vendor with many EPC players and other corporates including Airport Authority of India, GMR group, and Voltas, 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. However, the company has rationalized its inventory level which has eased some pressure on working capital borrowing as well. The company's ability to sustain efficient operating cycle with steady operational cash flows will remain a key monitorable.

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. The company strategically sources these raw materials from both domestic and foreign markets whereas import constitutes around ~9% of total purchase in FY23 (PY: ~11%). It is noteworthy that the company does not engage in hedging its foreign exchange exposure, given that the forex component represents a relatively small fraction of its overall procurement. 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 as reflected in their volatile gross margins over the past years.

Highly fragmented and competitive industry: The HVAC (Heating, Ventilation, and Air Conditioning) sector is marked by a high level of fragmentation, due to presence of numerous medium and small players striving to secure their respective portions of the market. Owing to intense competition among different players in the unorganized industry, the profitability margins in HVAC industry are relatively low.

Industry Prospects: With adoption of smart home automation systems and the Internet of Things (IoT) rises, coupled with an increase in disposable income and substantial investments in commercial, industrial, and residential infrastructure 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 company maintains the adequate liquidity profile as reflected by projected gross cash accruals of Rs.9.85 cr in FY24 as against the modest debt repayment of around Rs. 2.91 cr in FY24. Further, the current ratio remained moderate at 1.15x as on March

31, 2023 (PY: 1.20x) and the average utilization of working capital borrowings stood low at around ~31% for the trailing 12 months ended December 31, 2023 which has largely been supported by healthy cash flow of Rs.26.39 cr from operations in FY23. The company is undertaking proposed capex of around ~Rs.12.0 – Rs.13.0 cr during FY24 & FY25 pertaining to establishment of manufacturing unit in Telangana with a view to ease logistics cost of supply to southern market, which is currently being met through company's existing plant in Haryana and Delhi. The funding mix for this project is proposed to be through term loans of around ~Rs.7.5 cr-Rs.8.0 cr and remaining from internal accruals.

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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Diversified	Diversified	Diversified	Diversified

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 (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	217.91	284.37	220.75
PBILDT	11.55	13.48	11.85
PAT	2.88	5.03	5.38
Overall gearing (times)	1.32	0.98	NA
Interest coverage (times)	1.85	2.54	2.18

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Brickwork has conducted the review on the basis of best available information and has classified Edgetech Air Systems Private Limited as "Not cooperative" vide its press release date September 25, 2023.

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
Fund-based - LT-Cash Credit		-	-	-	40.00	CARE BBB-; Positive
Non-fund-based - ST-BG/LC		-	-	-	19.00	CARE A3
Term Loan-Long Term		-	-	August, 2028	5.39	CARE BBB-; Positive

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	Fund-based - LT-Cash Credit	LT	40.00	CARE BBB-; Positive	-	1)CARE BBB-; Stable (05-Jan-23)	1)CARE BB+; Stable (17-Feb-22)	1)CARE BB+; Stable (04-Feb-21)
2	Non-fund-based - ST-BG/LC	ST	19.00	CARE A3	-	1)CARE A3 (05-Jan-23)	1)CARE A4+ (17-Feb-22)	1)CARE A4+ (04-Feb-21)
3	Term Loan-Long Term	LT	5.39	CARE BBB-; Positive	-	1)CARE BBB-; Stable (05-Jan-23)	1)CARE BB+; Stable (17-Feb-22)	1)CARE BB+; Stable (04-Feb-21)

*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	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple
3	Term Loan-Long Term	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:

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