

## Patels Airtemp (India) Limited

November 21, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	163.63 (Reduced from 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

Ratings assigned to bank facilities of Patels Airtemp (India) Limited (PAIL) continue to derive strength from the vast experience of its promoters and 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 its moderate scale of operations and orderbook. However, ratings continue to be constrained considering its moderate profitability, exposure to fluctuations in raw material prices and foreign exchange rates and its large working capital requirement. 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]) and improvement in its profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin to over 15% on sustained basis.
- Improvement in operating cycle to less than 120 days on sustained basis.
- Improvement in debt coverage indicators with total debt to gross cash accruals (TD/GCA) below 2x and interest coverage above 6x while maintaining overall gearing below 0.50x on sustained basis.

#### Negative factors

- Deterioration in overall gearing above 1.5x and TOL/TNW beyond 2x on sustained basis.
- Decline in PBILDT margin below 9% and deterioration in its debt coverage indicators on sustained basis.
- Elongation in its working capital cycle above 225 days impacting its liquidity on sustained basis.
- 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 key rating drivers:

#### Key strengths

##### Vast experience of its promoters

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

### Established track record of operation in process equipment industry and reputed clientele

PAIL has long-standing operational track-record of over four decades (including the period when it was constituted as a partnership firm) in design and fabrication of process equipment and engineering goods. PAIL's products cater to diverse industries

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

including oil & gas, petroleum refineries, chemicals, pharmaceuticals, fertilizers, refrigeration and air conditioning plants, among others. The company has long and established relationship with its reputed clientele including major oil & gas players. PAIL mainly supplies to PSUs in oil & gas segment and engineering, procurement, and construction (EPC) contractors having diverse industry presence.

PAIL undertakes tender-based work, where top five customers contributed ~76% of net sales of PAIL in FY24 against 64% in FY23. 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, among others. 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 ~92% of the net sales in FY24 against 97% of the net sales in FY23. PAIL's products are critical components for 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. PAIL's products are approved by major third-party inspection agencies and consultants such as Bureau Veritas, TUV, Engineers India Limited, and SGS India Private Limited, among others.

#### **Moderate scale of operations and orderbook albeit moderate profitability**

In FY24, PAIL's scale of operation grew by 31% on y-o-y basis, however remained moderate at ₹371.18 crore in FY24 compared to ₹282.08 crore in FY23. In H1FY25, it reported TOI of ₹195.36 crore (₹168 crore in H1FY24). PAIL's growth prospects are linked to the capex cycle of engineering, petroleum and oil & gas industry. The company had unexecuted order book on hand of ₹296.98 crore as on September 30, 2024, providing near-to-medium term revenue visibility.

PAIL's profitability remained range bound in the last couple of years. PBILDT margin moderated to 9.60% in FY24 compared to 10.92% in FY23. In H1FY25 as well, PAIL reported PBILDT margin of 9.26% (H1FY24: 9.62%).

#### **Key weaknesses**

##### **Moderately leveraged capital structure and moderate debt coverage indicators**

PAIL had a moderate capital structure with overall gearing of 1.05x and TOL/TNW of 1.61x as on March 31, 2024, (1.17x and 1.78x as on March 31, 2023, respectively) mainly due to reliance on working capital bank borrowings and moderate net worth base of ₹142.25 crore as on March 31, 2024. Debt coverage indicators also remained moderate marked by PBILDT interest coverage ratio of 2.86x and TD/GCA of 9.09x in FY24.

As on September 30, 2024, overall gearing remained at 0.99x and debt coverage indicators improved marked by PBILDT interest coverage ratio at 3.15x and TD/GCA at 7.28x.

##### **Working capital intensity with elongated inventory period**

PAIL operates in capital goods industry, where work orders are large 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 delivery of goods due to delay in their project execution, which translates to higher inventory period. PAIL's customers retain 5-10% of the order value after completion of order and release it only after successful erection and satisfactory performance of goods supplied, resulting in high working capital intensity. PAIL's inventory level increased at ₹169.55 crore as on March 31, 2024 against ₹149.57 crore as on March 31, 2023, mainly to fulfil orders in pipeline and support execution in the next 2-3 quarters. The company purchases certain raw material backed by orders to hedge against raw material fluctuation risk and maintain inventory before dispatch as products go through stringent checks from its customers. PAIL's operating cycle improved but remained elongated at 206 days in FY24 compared to 233 days in FY23.

##### **Profitability susceptible to volatile raw material prices and foreign exchange fluctuation**

Metal (mild steel and stainless-steel) sheets, plates, tubes, pipes and other components are basic raw materials used by PAIL for fabrication of process equipment. Prices are driven primarily by existing demand and supply conditions with strong linkages to the global market. Inherent volatility in 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 fluctuation risk to some extent. Furthermore, PAIL also imports some portion of its raw material requirements, whereas exports were nominal at ~2% of total sales in FY24. 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, PAIL's liquidity is adequate marked by low term debt repayment obligation against moderate cash accruals and moderate working capital limit utilisation. Liquidity is also supported by healthy customer advances of ₹56.66 crore as on March 31, 2024 (₹55.08 crore as on March 31, 2023). PAIL is expected to generate ₹20-30 crore against low debt repayment of ₹3-5 crore in the near term. Average fund-based working capital utilisation remained moderate at 83% for 12-months ended September 2024. Cash and bank balance stood healthy at ₹20.99 crore as on March 31, 2024, and ₹21.49 crore as on September 30, 2024.

PAIL's non-fund-based limits mainly include bank guarantee limits that it utilises to provide performance guarantees (to private and public sector clients), bid-bond guarantees (mainly to government clients) and financial bank guarantees (BG) for customer advances. Average non-fund-based working capital limits utilisation remained high at 89% for 12-months ended September 2024.

**Assumptions/Covenants:** Not applicable

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

**Applicable criteria**

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

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[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

**About the company and industry****Industry classification**

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Industrial products	Other industrial products

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

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
Total operating income	282.08	371.18	195.36
PBILDT	30.79	35.65	18.09
PAT	11.19	14.69	8.21
Overall gearing (times)	1.17	1.05	0.99
Interest coverage (times)	2.56	2.86	3.15

A: Audited, UA: Unaudited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	31/03/2027	10.63	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 for 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 2024-2025	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
1	Fund-based - LT/ ST-Cash Credit	LT/ST	75.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (06-Dec-23)	1)CARE BBB+; Stable / CARE A2 (25-Nov-22)	1)CARE BBB+; Stable / CARE A2 (28-Dec-21)
2	Non-fund-based - LT-Bank Guarantee	LT	153.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (06-Dec-23)	1)CARE BBB+; Stable (25-Nov-22)	1)CARE BBB+; Stable (28-Dec-21)
3	Non-fund-based - ST-Letter of credit	ST	7.00	CARE A2	-	1)CARE A2 (06-Dec-23)	1)CARE A2 (25-Nov-22)	1)CARE A2 (28-Dec-21)
4	Fund-based - LT-Term Loan	LT	10.63	CARE BBB+; Stable	-	1)CARE BBB+; Stable (06-Dec-23)	1)CARE BBB+; Stable (25-Nov-22)	-

LT/ST: Long term/Short term, LT: Long term, ST: Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of 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 lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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### About us:

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### Disclaimer:

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