

## Ice Make Refrigeration Limited

December 23, 2022

### Ratings

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	1.21 (Reduced from 2.04)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable )	Reaffirmed
Long Term / Short Term Bank Facilities	30.00 (Enhanced from 25.00)	CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable/ A Two )	Reaffirmed
<b>Total Bank Facilities</b>	<b>31.21</b> <b>(₹ Thirty-One Crore and Twenty-One Lakh Only)</b>		

Details of facilities in Annexure-1.

### Detailed rationale and key rating drivers

The ratings for 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, its established and diversified clientele along with diversified product portfolio.

The ratings also take cognizance of significant growth in IMRL's total operating income (TOI) and improvement in its profitability during FY22 (FY refers to the period from April 1 to March 31) and H1FY23 while maintaining its comfortable financial risk profile.

The ratings, however, continue to remain constrained on account of susceptibility of IMRL's profitability to volatile raw material prices, stiff competition from organized players and subdued performance of its wholly owned subsidiary viz. Bharat Refrigerations Private Limited (BRPL).

This apart, ratings also take cognizance of implementation and funding risk associated with upcoming large-size debt-funded capex for setting up a new manufacturing facility.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Volume driven growth in scale of operations of IMRL along with strong ramp up in operations in its wholly owned subsidiary i.e., Bharat Refrigerations Private Limited (BRPL) resulting in growth in TOI beyond Rs.400 crore along with sustained operating profitability (PBILDT margin) of more than 13%.
- Successful implementation and scaling up of the operations of the upcoming manufacturing facility of continuous panel within the envisaged time and cost parameters.

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in total operating income 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.

### Detailed description of the key rating drivers

#### Key rating strengths

#### Significant growth in TOI along with improvement in profitability

During FY22, IMRL's TOI (on a consolidated basis) grew by ~53% y-o-y to Rs.206.21 crore (P.Y. 134.65 crore) backed by healthy growth in sales volume as well as realisation backed by healthy demand across its product portfolio.

While IMRL's PBILDT margin remained largely stable at 7.08% in FY22 (P.Y. 7.68%), its PAT margin improved by 87 bps y-o-y to 3.55% in FY22 due to decrease in finance cost and depreciation cost.

During H1FY23 (provisional), IMRL's TOI further improved to Rs. 131.97 crore, as compared to Rs.80.33 in H1FY22, backed by healthy orders on hand. PBILDT margin also improved to 9.76% in H1FY23 (H1FY22: 3.92%) on account of increase in scale of operation and stabilization of raw material prices.

CARE expects IMRL's TOI to grow further in FY23 supported by a healthy order book of Rs.93.93 crore as on December 14, 2022 (Rs. 57.32 crore as on December 04, 2021) and a majority of IMRL's orders are executed during December – March, just before the onset of summer.

#### Comfortable leverage and debt coverage indicators

IMRL has a comfortable capital structure with overall gearing of 0.18x as on FY22 end (P.Y.: 0.18x) on consolidated basis. Nevertheless, overall gearing is expected to deteriorate upon disbursement of proposed project debt for setting up of a new unit for manufacturing of continuous panel. Further, IMRL's debt coverage indicators on a consolidated basis also remains

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

comfortable as indicated by PBILDT interest coverage of 8.45 times during FY22 (P.Y.: 5.43 times) and total debt/GCA of 1.03 years as on March 31, 2022 (P.Y.: 1.26 years).

### **Established and diversified clientele along with diversified product portfolio**

Over the years, IMRL has established a strong clientele and provides refrigeration solutions to pharmaceuticals, dairy and ice-cream, healthcare, and food products industry. Further, the diversification in IMRL's client profile also remained healthy with top clients contributing only around 25-40% of its total revenue over the last three years ended FY22. 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 50% in FY22 (P.Y. 55%), as these are generally large ticket size solutions with on-site installation and commissioning requirements. The share of sale from commercial refrigeration and other refrigeration (including ammonia refrigeration) has gradually increased due to increased demand. During FY22, contribution from commercial refrigeration and other refrigeration products stood at 23% (P.Y. 19%) and 12% (P.Y. 7%) respectively of its total sales. The share of transport refrigeration and industrial refrigeration marginally declined at 10% and 5% respectively in FY22 (P.Y. 11% and 7% 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 overall operations along with co-promoters, Mr. Rajendra Patel & Mr. Vipul Patel, 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 rating 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), it exposes IMRL's profitability to adverse movement in these prices. Considering raw material cost constitutes ~75% of Cost of Sales, any 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 are small and IMRL partially passes on any price increase in newly bagged orders, however, highly 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 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 a competitive industry. Furthermore, financial performance of IMRL's subsidiary i.e. BRPL, albeit improved, remained subdued with TOI of Rs. 14.58 crore (P.Y.: Rs. 8.55 crore) and operating margin of 0.07% (operating loss in P.Y.) in FY22. BRPL booked net loss of Rs. 0.81 crore (P.Y. net loss of Rs. 0.89 crore) in FY22.

#### **Implementation and stabilization risk associated with the proposed capex**

IMRL is planning to set up a Continuous Panel manufacturing plant in Gujarat. The project is envisaged to be executed in FY23-FY24 with total outlay of around Rs. 50 crore, which is envisaged to be funded in debt:equity of 3:1. The financial closure is yet to be received. The operations are estimated to commence from April 2024. Considering the size of the project, project implementation risk is considered to be moderate.

Further, company is focusing on geographical expansion with setting up small manufacturing unit in east India. It is expected to save logistics cost and expand its presence in Eastern India. The new unit will be in collaboration with another company whereby IMRL will hold 60% stake with an investment of around Rs. 2 crore.

#### **Liquidity: Adequate**

IMRL's liquidity remained adequate marked relatively low utilization of its working capital limits at around 356% during the trailing 12 months ended September 30, 2022, and sufficient cushion available in the form of gross cash accruals vis-à-vis the annual debt repayment obligations.

The operating cycle of IMRL improved to 83 days in FY22 as compared to 115 days on account of improvement in collection period and inventory holding 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 shipments/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 by IMRL from its suppliers. Further, IMRL also maintains an inventory of around 80-100 days to ensure smooth delivery to its customers and to avail quantity discounts from its suppliers.

IMRL generated cash flow from operations of Rs. 8.16 crore on consolidated basis as compared to Rs. 12.00 crore in FY21. The cash flow from operations decreased mainly due to increase in working capital requirement on the back of increase in scale of operations. Going forward, the company is expected to generate the internal accruals of Rs. 14-30 crore as against the envisaged debt repayment of Rs.1-5 crore.

**Analytical approach:** Consolidated

IMRL's credit risk profile has been analysed on a consolidated basis with Bharat Refrigerations Private Limited (BRPL), as BRPL is its wholly owned subsidiary, and both the entities are engaged in similar line of business except for catering to different geographies. IMRL has also been providing need-based support to BRPL.

**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](#)

[Policy on Withdrawal of Ratings](#)

**About the company**

Gandhinagar, Gujarat based IMRL, erstwhile known as IC Ice Make Refrigeration Pvt. Ltd., was originally established as a partnership firm and was subsequently reconstituted in 2009 as a private limited company. IMRL, promoted by Mr. Chandrakant Patel, Rajendra Patel and Mr. Vipul Patel, is engaged in the manufacturing of a wide range of refrigeration products under the brand name 'Ice Make'.

IMRL's manufacturing facilities are located at Gandhinagar, Gujarat. The company provides refrigeration solutions including cooling, pre-cooling, mobile pre-cooling, blast chilling, blast freezing, storage and display. IMRL's products are broadly classified into five categories viz., cold room & storage products, commercial refrigeration products, transport refrigeration products, industrial refrigeration products and others including ammonia-based refrigeration products.

In December 2016, IMRL acquired BRPL, a Chennai based entity with operations of over two decades in the refrigeration industry for a total consideration of Rs.2.26 crore to expand its footprint in the South Indian market. In November 2017, IMRL raised Rs.23.71 crore through its Initial Public Offer (IPO) and was subsequently listed on NSE – Emerge. IMRL has migrated to NSE – Capital Market Segment (Main Board) from October 12, 2020.

Brief consolidated financials of IMRL:

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	September 30, 2022 (UA)
Total operating income	134.65	206.21	131.97
PBILDT	10.34	14.60	12.88
PAT	3.61	7.32	7.73
Overall gearing (times)	0.18	0.18	0.11
Interest coverage (times)	5.43	8.45	26.83

A: Audited; UA: Unaudited

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

**Complexity level of various instruments rated for this company:** Annexure-4

**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 along with Rating Outlook
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	30.00	CARE BBB+; Stable / CARE A2
Term Loan-Long Term		-	-	June 2026	1.21	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	30.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (30-Dec-21)	1)CARE BBB+; Stable / CARE A2 (05-Jan-21)	1)CARE BBB+; Stable / CARE A2 (24-Dec-19)
2	Term Loan-Long Term	LT	1.21	CARE BBB+; Stable	-	1)CARE BBB+; Stable (30-Dec-21)	1)CARE BBB+; Stable (05-Jan-21)	1)CARE BBB+; Stable (24-Dec-19)

\*Long term/Short term.

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

**Annexure-4: Complexity level of various instruments rated for this company**

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

**Annexure-5: 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 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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