

Patels Airtemp (India) Limited

November 25, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	14.17	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Assigned
Long Term Bank Facilities	153.00 (Enhanced from 113.00)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	75.00 (Enhanced from 60.00)	CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable/ A Two)	Reaffirmed
Short Term Bank Facilities	7.00	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	249.17 (₹ Two Hundred Forty-Nine Crore and Seventeen Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed 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 its diversified product portfolio, growing albeit moderate scale of operations and healthy orderbook which grew significantly in H1FY23 (FY refers to the period from April 1 to March 31).

The ratings, however, continue to be constrained on account of its 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

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

- Significant increase in its scale of operations (TOI and TNW) along with improvement in its PBILD margin to more than 15% on sustained basis.
- Improvement in operating cycle to less than 120 days on sustained basis.
- Improvement in debt coverage indicators with TD/GCA to below 2 times and interest coverage above 8 times while maintaining overall gearing below 0.50 times on sustained basis.

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

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

Detailed description of the key rating drivers

Key rating 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. The company is managed by three generation of the family. Mr. Narayanbhai Patel, aged 80 years, is the Chairman of PAIL and looks after the overall operations of the company. He holds Mechanical Engineering degree with specialization in air-conditioning; refrigeration and heat transfer equipment and has total work experience of more than four decades which has helped the company in facilitating the growth of overall operations through various initiatives. Further, the next generation of the family, Mr. Sanjiv Patel is Managing Director of PAIL (Son of Mr. Narayanbhai Patel) has also been actively involved in the business since more than one decade and looks after production activities. Mr. Shivang Patel (son

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

of late Mr. Prakash Patel) has 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 in Air & Refrigeration, possess more than three decades of experience and have expertise in Strategic Planning, R & D and Innovation. Board of PAIL consists of four executive directors and four independent directors.

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

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. Further, PAIL has long and established relationship with its reputed clientele including major oil players as well as reputed . Further, diversification across various industries also mitigates the risk associated with cyclicity in respective industries. PAIL undertakes tender based work with large order value where Top 5 customers contributed around 80% of net sales of PAIL during FY22 as against 76% in FY21. Composition of top 5 customers keeps changing resulting in lower business risk and also same is related to various project of customers.

Product certification from all major third party inspection agencies & consultants allow company to supply its product for critical applications

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 92% of net sales during FY22 as against 88% of net sales in FY21. 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 authorization 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.

Growing albeit moderate scale of operations with moderate profitability

During FY22, PAIL's scale of operation increased by healthy rate of 19% to Rs.303.60 crore albeit remained at moderate level. PAIL's growth prospects are linked to the capex cycle of engineering, petroleum and oil & gas industry. PBILDT margin of PAIL deteriorated marginally to 9.46% during FY22 due to cost pressures and execution of large orders with lower margins. During H1FY23, the PBILDT margin improved to 12.38%.

Significant increase in orderbook position

It has unexecuted order book of Rs.534.21 crore as on October 01, 2022 (Rs.282.25 crore as on November 1, 2021) translating into order-book to sales ratio of 1.79 times, which provides revenue visibility in medium term. Same grew on back of receipt of new orders during H1FY23 with overall improvement in capex cycle in oil and gas industry.

Key rating weaknesses

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 material used by PAIL for fabrication of process equipment. The inherent volatility in their prices could impact the company's profitability.

The prices are driven primarily by the existing demand and supply conditions with strong linkages to the global market. This results into risk of price fluctuations on the inventory of raw materials as well as finished goods. However, PAIL has back to back arrangement for booking of raw materials with the orders which mitigates the raw material price fluctuation risk to some extent. Further, PAIL also sources part of its raw material requirements from international markets; whereas exports on the other side was approximately around 23% of total gross sales during FY22. Hence, PAIL is get natural hedge partially and for balance portion it is exposed to adverse fluctuation in foreign currency exchange rates in absence of an active hedging policy.

Moderately leveraged capital structure and moderate debt coverage indicators

Capital structure of PAIL stood moderate with overall gearing of 1.18 times and TOL/TNW of 1.57 times as on March 31, 2022 as against overall gearing of 1.21 times and TOL/TNW of 1.83 times as on March 31, 2021. Debt coverage indicators of PAIL remained

moderate marked by PBILDT interest coverage ratio of 3.19 times and TD/GCA of 5.41 times and TD/PBILDT of 3.05 times during FY22.

As on September 30, 2022, the overall gearing stood stable at 1.12x. Also, the debt coverage indicators remained moderate marked by PBILDT interest coverage ratio at 2.52 times and TD/GCA at 8.98 times.

Working capital intensity with elongated collection period

PAIL operates in capital goods industry where work order is large in size and takes six months to eighteen months for execution. Goods manufactured by PAIL are generally used in large size refining/chemical projects, where customers many time ask PAIL to delay the delivery of the goods due to delay in their project execution, which translate in to higher inventory period. Furthermore, 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 stood around the same level at Rs.97.69 crore as on March 31, 2022 as against Rs.103.28 crore as on March 31, 2021. The company purchases certain raw material backed by orders to hedge against raw material fluctuation risk and also needs to maintain its inventory much before dispatch as the products go through stringent checks from its customers. Operating cycle of PAIL has improved to 189 days during FY22 (FY21: 208 days).

Liquidity: Adequate

Despite the high working capital intensity, liquidity of PAIL is adequate marked by low term debt repayment obligation against moderate cash accruals, moderate working capital limit utilization and moderate liquidity ratios. Liquidity is also supported by healthy customer advances/mobilization advance of Rs.41.35 crore as on March 31, 2022 (Rs.56.83 crore as on March 31, 2021). PAIL is expected to generate Rs.20-25 crore against low debt repayment of Rs.1-5 crore in near term. PAIL has also increased in fund based limit by Rs.15 crore as of September 2022 providing additional cushion to its liquidity. The Average fund based working capital utilization remained at 87% for the past twelve months ended September 30, 2022. The current ratio remained stable at 1.65 times and quick ratio stood at 0.97 times as on March 31, 2022. Cash and bank balance stood healthy at Rs.18.18 crore (including margin money deposits of around Rs. 12.10 crore).

PAIL's non-fund based limits mainly includes Bank Guarantee limits that it utilizes 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 utilization remained high at 83% for the past twelve month ended on September 30, 2022.

Analytical approach

Standalone

Applicable criteria

[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Manufacturing Companies](#)
[Policy on default recognition](#)
[Policy on Withdrawal of Ratings](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)

About the company

Incorporated in 1973 as Patel Airtemps by Mr. Narayanbhai Patel, Patels Airtemp (India) Limited (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 changed its name to the present form. PAIL is engaged in the manufacturing of capital goods equipment like heat exchangers, pressure vessels, air conditioning and 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, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	255.40	303.60	116.88
PBILDT	26.08	28.73	14.49
PAT	11.37	12.40	5.01
Overall gearing (times)	1.21	1.18	1.12
Interest coverage (times)	3.27	3.19	2.52

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: NA

Any other information: Not Available

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

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/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 (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 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	Fund-based - LT/ ST-Cash Credit	LT/ST*	75.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (28-Dec-21)	1)CARE BBB+; Stable / CARE A2 (03-Feb-21)	1)CARE BBB+; Stable / CARE A2 (19-Nov-19)
2	Non-fund-based - LT-Bank Guarantee	LT	153.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (28-Dec-21)	1)CARE BBB+; Stable (03-Feb-21)	1)CARE BBB+; Stable (19-Nov-19)
3	Non-fund-based - ST-Letter of credit	ST	7.00	CARE A2	-	1)CARE A2 (28-Dec-21)	1)CARE A2 (03-Feb-21)	1)CARE A2 (19-Nov-19)
4	Fund-based - LT-Term Loan	LT	14.17	CARE BBB+; Stable	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:- NA

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

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: 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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About us:

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