

Patels Airtemp (India) Limited

December 28, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	113.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	60.00 (Enhanced from 49.00)	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	180.00 (Rs. One Hundred Eighty Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & 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, moderate scale of operations and orderbook.

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 PBILDT 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 PBILDT 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 operational track-record of more than four decades in the business of design and fabrication of process equipment and engineering goods and company is managed by three generation of the family members. Mr. Narayanbhai Patel, aged 80 years, is the Chairman of PAIL and looks after the overall operations of the company 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 of late Mr. Prakash Patel) has been taking active part in operations. Mr. Narendra Patel, Executive Director having three decades of experienced and looks after marketing of products. Board of PAIL consists of five 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 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 which includes oil majors as well as reputed EPC players. PAIL undertakes tender based work with large order value where Top 5 customers contributed around 76% of net sales of PAIL during FY21.

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

PAIL had undertaken expansion project in FY20-FY21 to set up a new unit with project cost of Rs.20-22 crore which was funded through internal accruals/unsecured loan. Project became operational in FY21 and it plans to further add one more shed with envisaged project cost of Rs.3 crore in FY22.

Product certification from all major third party inspection agencies and 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 88% of net sales during FY21 as against 86% of net sales in FY20. The products of PAIL are one of the critical components of oil refineries 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.

Moderate scale of operations and profitability with moderate orderbook position

During FY21, PAIL's scale of operation increased by 7% to Rs.256.04 crore and remained in line with FY20 despite Covid 19 induced disruptions. During H1FY22, PAIL reported TOI of Rs.110.60 crore with a growth of 10% on y-o-y basis. PAIL's growth prospects are linked to the capex cycle of engineering, petroleum and oil & gas industry. PBILDT margin of PAIL stood at similar level of 10.43% during FY21 over FY20 due to execution of large orders with lower margins and increase in input prices. During H1FY21, the PBILDT margin improved to 12.30%.

Further, it has unexecuted order book of Rs.282.25 crore as on November 01, 2021 (Rs.303.33 crore as on November 1, 2020) translating into order-book to sales ratio of 1.12 times, which provides moderate revenue visibility in medium term. PAIL expects good order flow in H2 with tenders major capex undertaken by Oil and gas industry players.

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 due to absence of price escalation clause.

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.

Moderately leveraged capital structure and moderate debt coverage indicators

Capital structure of PAIL is continues to be moderately leveraged with overall gearing of 1.21 times and TOL/TNW of 1.83 times as on March 31, 2021 as against overall gearing of 1.16 times and TOL/TNW of 1.90 times as on March 31, 2020 with increase in short term borrowings. Further, PAIL does not have any term debt repayment obligations and it mainly utilizes BG limits. Debt coverage indicators of PAIL remained moderate marked by PBILDT interest coverage ratio of 3.35 times and TD/GCA of 8.21 times and TD/PBILDT of 4.51 times during FY21.

As on September 30, 2020, the overall gearing increased to 1.30 times due to increase in working capital borrowings and customer advances. This increase in working capital borrowings was to fund the increased inventory requirement which consists of the inventory of a major order which was booked in November, 2021. The inventory is expected to remain at Rs. 100-110 crore. level. Also, the debt coverage indicators remained moderate marked by PBILDT interest coverage ratio at 2.79 times and TD/GCA at 10.94 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.103.28 crore as on March 31, 2021 as against Rs.101.45 crore as on March 31, 2020. 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 moderately increased to 208 days during FY21 (FY20: 197 days).

Liquidity: Adequate

Despite the high working capital intensity, liquidity of PAIL is adequate marked by no term repayment obligation, moderate working capital limit utilization and moderate liquidity ratios. Liquidity is also supported by healthy customer advances of Rs.56.83 crore as on March 31, 2021 (Rs.58.95 crore as on March 31, 2020). PAIL has also increased in fund-based limit by Rs.11 crore in September 2021 providing additional cushion to its liquidity. The Average fund based working capital utilization

remained at 85% for the past twelve months ended October 31, 2021. The current ratio remained stable at 1.36 as and quick ratio stood at 0.76 times as on March 31, 2021. Cash and bank balance stood healthy at Rs.11.50 crore (excluding margin money deposits of around Rs. 11.37 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 80% for the past twelve months ended on October 31, 2021.

Analytical approach: Standalone

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

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.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total operating income	239.25	256.04	110.06
PBILDT	24.88	26.72	13.54
PAT	11.31	11.37	5.21
Overall gearing (times)	1.16	1.21	1.46
Interest coverage (times)	3.44	3.35	2.79

A: Audited; UA: Un-audited

Status of non-cooperation with previous CRA: Not Applicable

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 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	-	60.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT-Bank Guarantees	-	-	-	-	113.00	CARE BBB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	7.00	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ST-Cash Credit	LT/ST*	60.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (03-Feb-21)	1)CARE BBB+; Stable / CARE A2 (19-Nov-19)	1)CARE BBB+; Stable / CARE A2+ (12-Dec-18)
2	Non-fund-based - LT-Bank Guarantees	LT	113.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (03-Feb-21)	1)CARE BBB+; Stable (19-Nov-19)	1)CARE BBB+; Stable (12-Dec-18)
3	Non-fund-based - ST-Letter of credit	ST	7.00	CARE A2	-	1)CARE A2 (03-Feb-21)	1)CARE A2 (19-Nov-19)	1)CARE A2+ (12-Dec-18)

* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
I - Ratios	Current ratio > 1.33x and TOL/TNW < 2.00x
B. Non financial covenants	
I – Change in business	Prior approval of bank for implementing any scheme of expansion/modernization/diversification or formulate any scheme of merger/amalgamation/reconstitution.
Ii – Change in management	Prior approval of bank for any change in the management set-up/capital structure

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT/ ST-Cash Credit	Simple
2	Non-fund-based - LT-Bank Guarantees	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:

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