Edgetech Air Systems Private Limited

January 6, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	31.07	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	10.00	CARE A4+ (A four Plus)	Reaffirmed
Total Facilities	**41.07 (Rupees forty one crore and seven lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Edgetech Air Systems Private Limited (EASPL) continue to be constrained by elongated operating cycle, exposure to unhedged foreign exchange fluctuation, volatility in raw material prices and highly fragmented and competitive nature of industry. The rating constraints however are partially offset by experienced and resourceful promoters, established relationship with reputed Original Equipment Manufacturers (OEM's) and moderate financial risk profile with low overall gearing.

Rating Sensitivities

Positive Factors

- Improved demand of heating ventilation and air conditioning components leading to a growth in total operating income by more than 20% and improvement in gross cash accruals of more than Rs. 6 crore on a sustainable basis.

Negative Factors

- Weak operational performance with significant decline in operating income by more than 35% leading to lower cash accruals on a sustainable basis.
- Deterioration in capital structure with elevated overall gearing ratio beyond 4x on a sustained basis.

Detailed description of the key rating drivers

Key Rating Weaknesses

Long Operating cycle

The operating cycle of the company continues to remain high at 135 days (PY:138 days) for FY19 (refers to the period from April 1 to March 31) due to stretched receivable period and high inventory holding period beyond 100 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. The inventory holding period also remained high at 117 days (PY: 107 days) for FY19 owing to high semi-finished goods (83% of the total inventory – PY 77%). A large part of the inventory has been funded through unpaid creditors.

The average working capital utilization remained high with average CC utilization of 86.63% and non-fund based utilization of 74.88 % for the past 12 months ending October 2019.

Exposure to Forex Risk & Raw Material Price Volatility

Major raw materials used by EASPL are copper, aluminium profiles and foils, iron sheets (painted and galvanized sheets), fans, air filters, and electric motors. Company sources majority of copper through imports. The company does not hedge its forex exposure since the same constitutes a small fraction (25%) of total procurement vis-à-vis the hedging cost involved. Furthermore, the copper prices bear a high degree of negative correlation with the movement of dollar prices and thereby provides 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

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

contracts with its customers and hence, cannot pass on any significant adverse fluctuations in raw materials and remains exposed to the risk arising out of raw material price volatility and foreign exchange fluctuations.

Fragmented and Competitive Nature of HVAC Industry

HVAC industry is a highly fragmented industry with large number of medium and small players that compete for their share of business. Due to intense competition among different players in the unorganized industry, the profitability margins in HVAC industry are relativley low.

Key Rating Strengths

Experienced and resourceful promoters

EASPL was incorporated in Jan 2005 by Mr. R.P. Goel. The company is currently being managed by Mr R.P. Goel (Chairman) and his son Mr. Amit Goel (Managing Director). Mr. R.P. Goel is a post graduate from Punjab University and has more than 4 decades of experience in the industry. His son Mr. Amit Goel is a graduate from Delhi University and has around 20 years of experience in the HVAC industry. The promoters of EASPL have been supporting the operations of the company by infusing funds as and when required.

Established relations with reputed OEM's

EASPL is engaged in manufacturing of HVAC systems since 2005 and has established strong relationships with reputed OEM's such as Blue Star, Voltas, Sterling & Wilson etc. Besides this the company has also done installation for customers in various sectors including hotels, pharmaceuticals, hospitals, telecom, automobile, and education.

Moderate financial risk profile with low overall gearing

The total operating income of the company grew by 28.20% to Rs.154.85 Cr during FY19 from Rs.120.79 Cr in FY18 supported by increase in volumes and realization prices of air handling units. However, profitability deteriorated slightly as reflected by PBILDT margin of 5.68 % in FY19 (PY: 6.58%) on account of higher freight outward expenses which increased from 0.70% of total operating income in FY18 to 1.79% of the total operating income in FY19.

The debt profile of the company is mainly characterized by working capital borrowings and negligible term debt. Further, the unsecured loans from promoters as on March 31, 2019 stood at Rs. 16.12 cr, of which Rs.2.03 Cr was infused in FY19 to support the growing scale of operations**.** The overall gearing of the company deteriorated slightly to 3.94x as on 31st March 2019 as against 3.74x as on 31st March 2018 majorly on account of higher working capital borrowings as on balance sheet date. Further, other debt coverage indicators remained stable as reflected by interest coverage ratio and TD/GCA of 1.77x (PY: 1.69x) and 18.77x (PY: 18.92x) respectively as on March 31, 2019.

Liquidity: Stretched- Liquidity is marked by high operating cycle of the company which stood at 135 days as on March 31, 2019 (138 days as on March 31, 2018) primarily on account of high collection and inventory days. Working capital limits of the company remain fully utilized with average fund based and non-fund based utilization of 86.63% and 74.88% respectively for the 12 months ended October 2019. The company has free cash and cash equivalents to the tune of Rs. 0.07 Cr against long term debt of Rs. 0.21 Cr as on March 31, 2019. The gross cash accrual of the company improved to Rs.3.21 crore during FY19 with negligible debt repayment obligation of Rs.0.48 crore during FY20.

Analytical approach: Standalone

Applicable criteria

CARE's criteria on assigning outlook and credit watch to credit ratings
CARE's policy on Default recognition
CARE's criteria on Short term ratings
CARE's methodology for manufacturing companies
Financial Ratios-Non Financial sector

About the company

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 and 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 (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	120.79	154.85
PBILDT	7.95	8.79
PAT	1.24	1.70
Overall gearing (times)	3.74	3.94
Interest coverage (times)	1.69	1.77

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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*

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	30.00	CARE BB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	10.00	CARE A4+
Term Loan-Long Term	-	-	-	1.07	CARE BB+; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	30.00	CARE BB+; Stable	-	1)CARE BB+; Stable (01-Feb-19)	-	-
2.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A4+	-	1)CARE A4+ (01-Feb-19)	-	-
3.	Term Loan-Long Term	LT	1.07	CARE BB+; Stable	-	1)CARE BB+; Stable (01-Feb-19)	-	-

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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