Edgetech Air Systems Private Limited

February 01, 2019

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long-term Bank Facilities	31.07	**CARE BB+;Stable (Double B Plus; Outlook: Stable)**	Assigned
Short-term bank facilities	10.00	**CARE A4+ (A Four Plus)**	Assigned
Total	**41.07 (Rupees Forty one crore and seven lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The ratings assigned to the bank facilities of Edgetech Air Systems Private Limited (EASPL) are constrained on account of working capital intensive nature of operations, exposure to foreign exchange fluctuation and 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 OEM's and moderate financial risk profile with low overall gearing.

Going forward, the ability of the company to increase its scale of operations and improve its working capital cycle besides maintaining its capital structure will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Working capital intensive nature of operations

The operations of the company are working capital intensive as evidenced from operating cycle of 138 days as on March 31, 2018 (95 days as on March 31, 2017), primarily due to high collection days and inventory holding period. The average collection and inventory holding days stood at 137 days and 107 days respectively as on 31st March 2018 as against 99 days and 81 days respectively as on 31st March 2017. The elongated working capital cycle in FY18 is mainly on account of higher tax rate under GST on the products supplied by the company and lower off-take due to GST implementation. Also, the company has to generally extend a longer credit period to its established customers, besides keeping some advance inventory for smooth flow of operations. The utilization of working capital limits were on the higher side with average fund based utilization of 88.30% for the past 12 months ending November 18.

Exposure to foreign exchange fluctuation and volatility in raw material prices

Major raw materials used by EASPL are copper, aluminum profiles and foils, iron sheets (painted and galvanized sheets), fans, air filters, and electric motors. Company imports majority of its cooper requirement, however, it does not go for hedging of the same as exchange rates and copper prices have high degree of negative correlation, thereby providing natural hedge against any short term adverse movement in copper prices.

Other raw material requirement is majorly met domestically. EASPL enters into fixed price contracts with its customers and hence, cannot pass on any adverse fluctuations in raw materials. Thus, the company is exposed to the risk arising out of raw material price volatility and foreign exchange fluctuations.

Fragmented and competitive nature of industry

HVAC industry is highly fragmented with large number of medium and small players competing for their share of business. Due to intense competition and a large unorganized segment, the profitability margins in HVAC industry are relatively 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

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

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 (Original Equipment Manufacturer) such as Blue Star, Voltas, Sterling & Wilson etc. Besides this the company has also done installation for customers in various sectors such as hotels, pharmaceuticals, hospitals, telecom, automobile, education etc.

Moderate financial risk profile with low overall gearing
The total operating income of the company grew at a CAGR of 6% over past 3 years to Rs. 120.79 cr in FY18. The company registered slightly lower revenue of Rs. 120.79 cr in FY18 as against Rs. 127.62 cr FY17 on account of GST implementation in FY18. Despite decline in turnover, the profitability margins of the company improved as reflected by PBILDT and PAT margin of 6.58% and 1.02% respectively in FY18 as against 6.18% and 0.87% respectively in FY17. This is majorly of account of lower cost of raw material consumed.
The debt profile of the company is mainly characterized by working capital borrowings and almost negligible term debt. The overall gearing of the company improved from 1.45x as on 31st March 2017 to 1.25x as on 31st March 2018. Further, other debt coverage indicators remained moderate as reflected by interest coverage ratio of 1.69x as on 31st March 2018 (PY: 1.79x).

Liquidity Analysis
The operations of the company are working capital intensive with operating cycle of 138 days as on 31st March 2018 as against 95 days as on 31st March 2017. The working capital limits of the company remained fully utilized with average fund based and non-fund based utilization of 88.30% and 98.25% respectively for the 12 months ended November 2018.
The company has moderate liquidity as evident from current ratio of 1.16x and cash balance of Rs. 0.07 cr (PY: Rs.0.09 cr) as on March 31, 2018.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology – Manufacturing Sector
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments

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 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. The combined annual production capacity of both facilities is around 11,000 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)	FY17 (A)	FY18 (A)
Total operating income	127.62	120.79
PBILDT	7.89	7.95
PAT	1.11	1.24
Overall gearing (times)	1.45	1.25
Interest coverage (times)	1.79	1.69

A: 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

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	June, 2020	0.13	CARE BB+; Stable
			Yet to be disbursed	0.94	

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	30.00	CARE BB+; Stable	-	-	-	-
2.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A4+	-	-	-	-
3.	Term Loan-Long Term	LT	1.07	CARE BB+; Stable	-	-	-	-

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