

Ellenbarrie Industrial Gases Limited

January 7, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	17.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	14.00	CARE A4+ (A Four Plus)	Assigned
Total Facilities	31.00 (Rs. Thirty-One Crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Ellenbarrie Industrial Gases Limited (EIGL) remain constrained by highly leveraged capital structure, foreign currency fluctuation risk on account of the un-hedged foreign currency denominated loans, exposure to competition due to low product differentiation, capital intensive nature of business and performance linked with fortunes of the end-user industry.

The ratings, however, derive strength from the strong operational and financial support from the ultimate parent company Air Water Incorporation (AWI), experienced promoters with long track record, satisfactory capacity utilization, diversified customer base and improvement in the financial performance during FY18 (refers to the period April 1 to March 31) & H1FY19.

Going forward, the ability of the company to improve the scale of operations & profitability margin would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Highly leveraged capital structure: The capital structure continues to be highly leveraged on account of foreign currency loans which marked to high overall gearing ratio as on March 31, 2018. Total debt/ GCA also remained high during the last two fiscals, though improved slightly in the FY18 due to improvement in the profitability.

Foreign currency fluctuation risk: EIGL has availed majority of its term loan in foreign currencies at low rate of interest, out of which the company has hedged foreign currency loans of around 50%, which has reduced the quantum of its foreign exchange loss from Rs.3.39crore in FY16 to Rs.1.04crore in FY17 to Rs.1.00 crore in FY18. However, EIGL continues to have foreign currency fluctuation risk on account of the un-hedged forex loans.

Performance linked with the fortunes of end-user industry: Industrial gases are a consumable product and not a standalone finished product. Being a derived demand, its growth and profitability depends on the growth and profitability of user industries. Furthermore, the demand for industrial gases also depends upon the performance of the manufacturing sector, which is also cyclical in nature. However, the revenue profile of company is diversified in various industries (15.40% of total revenue from steel industry and 25.60% of total revenue from pharmaceuticals industry).

High competition from large players: The industrial gas industry is highly competitive due to the commoditized nature of the products and the company faces stiff competition from the Indian subsidiaries of the international majors like Praxair Inc., Linde AG, Air Liquide SA and other local players like INOX Air Products Ltd and Goyal MG Gases Pvt. Ltd. among others. Apart from purity, there is limited product differentiation and thus the merchant faces stiff competition from other domestic players leading to limited ability to pass on the rise in input cost.

Capital intensive nature of business: The business profile of the company is capital intensive in nature.

Key Rating Strengths

Experienced promoters with long track record: Incorporated in November 1973, EIGL is being managed by Mr. Padam Kumar Agarwala (Promoter & MD), Mr Noriyo Shibuya (JMD), Mr. Shanti Prasad Agarwala, and Mr Varun Agarwala are

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

assisted by a team of experienced and qualified professionals. Mr Shanti Prasad Agarwala started the business of industrial gases in 1973 and has an experience of more than four decades in this line of business. Currently, Mr Padam Kumar Agarwala is handling the day to day affairs of the company and is having an experience of nearly three decades in this line of business.

Strong operational and financial support from ultimate parent company Air Water Incorporation: In October 2013, AWI acquired 51% stake in EIGL, to enter the Indian market. AWI is one of the leading Japanese industrial gas manufacturers, headquarter in Osaka, Japan. EIGL would derive significant technological and managerial support from AWI. AWI has also provided financial support to the company by infusing Rs.31.5 crore in the form of preference shares in FY16 and by providing corporate guarantee for the long term loans availed by EIGL. During FY18, EIGL has availed short-term loans worth Rs.33.03 crore which are also secured by corporate guarantee by AWI.

Wide customer base spread across various industries with relatively low counter party payment risk and satisfactory distribution network: EIGL supplies industrial and medical gases to various customers from varied industries. The clientele of EIGL includes reputed players like Aurobindo Pharma Limited, Divis Laboratories Limited, Inox Air Products Private Limited etc. having sound credit risk profile, which reduces counter party payment risk to a certain extent.

Satisfactory Capacity Utilization: In FY18, manufacturing facility at Vishakhapatnam was temporally shut down for few months to take the benefit of low cost outsourced product and concentrate more on trading of industrial gases. However, capacity utilization remained moderate in FY18 on similar lines as FY17. Further, in H1FY19, the capacity utilization levels reached to around 91%.

Improved financial performance in FY18 & H1FY19: EIGL's operating income witnessed a y-o-y growth of 6.53% in FY18, mainly on account of growing demand for industrial gases in the pharmaceuticals, steel and chemicals industry during the period. PBILDT levels continue to increase consistently during the last three years (Rs.20.19cr in FY18 as against Rs.17.78cr in FY17 and Rs.8.95cr in FY16) on account of better absorption of fixed costs. Further, the company garnered cash accrual of Rs.9.78 crore in FY18 (Rs.7.39 crore in FY17) vis-à-vis debt repayment obligation in FY18. In H1FY19 EIGL realized a PAT of Rs.3.65 crore on a total operating income Rs.75.61 crore.

Liquidity: The average utilization of fund-based working capital limit during the 12 month ending September 2018 was around 19%. Besides this, EIGL had a cash & bank balance of Rs.0.78 crore as on March 31, 2018.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Incorporated in November 1973, EIGL is engaged in the manufacturing, trading and supply of industrial and medical gases viz. Oxygen, Nitrogen, Argon, Carbon Dioxide, Helium, Acetylene (DA) Nitrous Oxide and specialty gas mixtures. EIGL was set up by Mr. Shanti Prasad Agarwala and his family. In October 2013, Air Water Incorporation (AWI), a leading Japan-based company, acquired 51% stake in EIGL, to enter the Indian market. EIGL's plants are located at Uluberia (36,500 MTPA), Vishakhapatnam (40,150 MTPA) and Hyderabad (40,150 MTPA). The Board of Directors of EIGL consists of nine members with three representatives from AWI (including JMD), three members from the Agarwala family and rest independent directors

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	117.60	125.29
PBILDT	17.78	20.19
PAT	0.39	2.50
Overall gearing (times)	NM	188.32
Interest coverage (times)	1.57	1.84

A: Audited NM: Not Meaningful

Status of non-cooperation with previous CRA: : Brickwork Ratings has conducted the review on the basis of best available information and has classified Ellenbarrie Industrial Gases Ltd as "Non-cooperating" vide press release dated Nov 07,2017.

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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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	-	-	-	17.00	CARE BB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	4.50	CARE A4+
Non-fund-based - ST-Bank Guarantees	-	-	-	9.50	CARE A4+

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	17.00	CARE BB+; Stable	-	1)CARE BB+; Stable (14-Dec-17)	1)CARE BB+ (25-Aug-16) 2)CARE BB+ (25-Aug-16)	-
2.	Fund-based - LT-Cash Credit	-	-	-	-	-	-	-
3.	Non-fund-based - ST-Letter of credit	ST	4.50	CARE A4+	-	-	-	-
4.	Non-fund-based - ST-Bank Guarantees	ST	9.50	CARE A4+	-	-	-	-

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