

Ellenbarrie Industrial Gases Ltd

December 14, 2017

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	17.00	CARE BB+;Stable (Double B Plus ; Outlook:Stable)	Re-affirmed
Total facilities	17.00 (Rs. Seventeen crore only)		

Detailed Rationale

The rating assigned to the bank facilities of Ellenbarrie Industrial Gases Limited (EIGL) continue to remain constrained by moderate profitability ,highly leveraged capital structure ,the 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 rating weaknesses are however partly offset by the strong operational and financial support from the ultimate parent company Air Water Incorporation (AWI), experienced promoters with long track record, diversified customer base and satisfactory capacity utilization.

The ability of the company to further improve its performance and maintain profitability with effective working capital management would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Financial risk profile marked by moderate profitability and leveraged capital structure; albeit improvement in profitability in H1FY18

Although EIGL has reported a PAT of Rs.0.74crore in FY17 vis-à-vis loss of Rs.13.32crore in FY16, the profit levels continue to be moderate. Overall gearing improved moderately from 24.34x as on Mar.31, 2016 to 18.95x as on March 31, 2017, the capital structure continues to be highly leveraged on account of foreign currency loans. EIGL reported a PAT of Rs.0.91crore on a total income of Rs.52.84crore during six months ended September 2017

Foreign currency fluctuation risk

EIGL has availed majority of its term loan in foreign currencies at low rate of interest , which was strategically kept un-hedged till FY16. During the current financial year, EIGL had foreign currency term loan to the tune of Rs.101.9crore, out of which the company has hedged foreign currency loans of Rs.18.2crore.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 stand-alone finished product. Being a derived demand, its growth and profitability depends on the growth and profitability of user industries. As such, the demand for industrial gases also depends upon the performance of the manufacturing sector, especially the steel industry, which is also cyclical in nature.

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

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

segment 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 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 FY1 and by providing corporate guarantee for the long term loans availed by EIGL. During FY17, EIGL has availed short-term loans worth Rs.24.5crore 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, Hindustan Petroleum Corporation, Sun Pharmaceuticals Industries Ltd, Steel Authority of India Limited, Linde India Limited, Hetero Labs Limited, etc. having sound credit risk profile, which reduces counter party payment risk to a certain extent.

Satisfactory Capacity Utilization

On account of increased focus on sale of piled up opening inventories of last year, production was moderate during FY17 on similar lines as FY16. Capacity utilization thus remained unchanged at 76% during the year, however it was satisfactory. During Q1FY18, manufacturing facility at Vishakhapatnam was temporally shut down. Hence capacity utilization declined to around 61% in Q1FY18.

Analytical approach: Standalone

Applicable Criteria

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

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

[CARE's Policy on Assigning Outlook](#)

[Rating Methodology - Manufacturing Companies](#)

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 manufacturing facility of EIGL at Uluberia and Kalyani has AS/NZS ISO 9001:2008 certification. EIGL is also one of the members of Federation of Indian Export Organisation and International Oxygen Manufacturers Association. 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 of EIGL (Rs. In crore)	FY16(A)	FY17(A)
Total operating income	99.02	105.68
PBILTD	8.95	18.38
PAT	(13.32)	0.74
Overall Gearing	24.34	18.95
Interest Coverage	0.57	1.68

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.

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	-	-	-	17.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	17.00	CARE BB+; Stable	-	1)CARE BB+ (25-Aug-16) 2)CARE BB+ (25-Aug-16)	-	-
2.	Fund-based - LT-Cash Credit	-	-	-	-	-	-	-

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