

Ice Make Refrigeration Limited

December 24, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	2.82	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Assigned
Long-term / Short-term Bank Facilities	19.00	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable / A Two)	Reaffirmed
Total Facilities	21.82 (Rupees Twenty One Crore and Eighty Two Lakh only)		

Details of instruments/facilities in Annexure-1;

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Ice Make Refrigeration Limited (IMRL) continue to derive strength from the long standing experience of its promoters in refrigeration equipment industry coupled with its established clientele. The ratings further take into account healthy growth in its total operating income during FY19 (FY refers to period from April 01 to March 31) along with its comfortable capital structure and debt coverage indicators and its adequate liquidity.

The ratings, however, continue to remain constrained on account of IMRL's moderate scale of operations, susceptibility of its operating profitability to volatility in input costs and stiff competition from organized players in the industry. The ratings also take into account the moderation in IMRL's profitability during FY19 and H1FY20.

Rating Sensitivities

Positive Factors

- Volume driven growth in total operating income (TOI) above Rs.300 crore along with healthy order book and sustained operating profitability (PBILDT margin) of more than 15%.
- Sustained generation of healthy cash flow from operations.

Negative Factors

- Decline in TOI to lower than Rs.100 crore or decline in operating profitability with PBILDT margin below 8% on a sustained basis.
- Elongation in working capital cycle to beyond 120 days from present working capital cycle of around 90 days and increase in external borrowings to fund these requirements.
- Any large sized debt-funded capex in a limited time resulting in deterioration in debt coverage indicators.

Detailed description of the key rating drivers

Key Rating Strengths

Promoters' experience in the refrigeration equipment industry: IMRL's key promoter, Mr. Chandrakant Patel, has over two decades of experience in the refrigeration equipment manufacturing industry. He looks after sales and marketing, research & development, human resource and administration along with strategic planning decisions. The co-promoters, Mr. Rajendra Patel & Mr. Vipul Patel, also have an experience of over two decades in the refrigeration equipment industry.

Established and reputed clientele: Over the years, IMRL has established a strong clientele across industries. Some of the industries to which it has provided refrigeration solutions include pharmaceuticals, dairy and ice-cream, healthcare and food products. Further, the diversification in IMRL's client profile also remained healthy with top clients contributing only around 20-30% of its total revenue over the last 2-3 years. Around 60-65% of IMRL's revenue is generated from direct sales whereas the balance (35-40%) is through its dealers and distributors spread across the country. Cold room and related storage products contribute the highest (55-60% of TOI in FY19 & H1FY20) to IMRL's overall revenue, as they are generally of larger ticket size with on-site installation and commissioning requirements.

Completion of modernization capex during FY19: During FY18, IMRL had raised Rs.23.71 crore through its Initial Public Offer (IPO) and was listed on the NSE Emerge platform. A majority of these equity proceeds were utilized towards modernization and upgradation of IMRL's existing facilities (including infusion of funds in Bharat Refrigerations Pvt. Ltd. for modernization of its facilities). IMRL's modernization capex projects were completed by March 2019 and commercial production for the same commenced from May 2019.

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

Growth in scale of operations; albeit moderation in profitability: During FY19, IMRL reported around 28% y-o-y growth in its TOI to Rs.131.99 crore with increase in volumes supported by repeat orders from its existing customers. Despite the growth in scale of operations, its TOI continued to remain moderate. Further, despite the growth in scale of operations, IMRL reported decline of around 204 bps in its PBILDT margin to 10.72% for FY19 (P.Y.: 12.77%) on account of increase in raw material costs, which IMRL was not able to pass on to its customers as its orders are fixed price in nature, which also underlines the competition in the industry. Decline in operating profitability along with higher depreciation on newly concluded capex resulted into marginal decline of around 56 bps in its PAT margin to 5.67% for FY19 (P.Y.: 6.23%). Further, during H1FY20, IMRL reported stable scale of operations compared with that in H1FY19. However, its operating profitability moderated further with PBILDT margin of 5.79%, primarily on account of increase in operating costs such as employee benefit expense (for ammonia division), rent and sales commission during the period. IMRL's business operations exhibit seasonality, since, a majority of IMRL's sales orders are executed during December – March period, just before the onset of summer, which is expected to translate into higher sales in H2FY20 supported by its order book of Rs.38.52 crore as on December 5, 2019 (which are expected to be executed during December 2019 and Q4FY20).

Comfortable leverage and debt coverage indicators: IMRL's overall gearing improved and remained comfortable at 0.07x as on March 31, 2019 (0.23x as on end FY18) on account of increase in net worth base of the company due to accretion of profit to reserves and its stable debt profile. Moreover, IMRL did not have any outstanding term loans as on March 31, 2019 (except vehicle loans). IMRL's debt coverage indicators also remained comfortable marked by total debt/GCA of 0.32x as on March 31, 2019 (1.26x as on end FY18). However, IMRL's overall gearing moderated in end-H1FY20 but still remained comfortable at 0.45x as on September 30, 2019 (0.32x as on September 30, 2018). The moderation in its overall gearing was on account of increase in working capital borrowings to fund higher inventory and receivables as on September 30, 2019 (which normally declines by the end of the year with shipments during the second half and better collections) and long-term debt (incl. term loan availed for purchase of land for part of factory premises previously employed on rent).

Liquidity - Adequate: Despite the working capital intensity of its operations, IMRL's liquidity remained adequate marked by low utilization of its working capital limits at around 40-50% for the trailing 12 months ended September 2019 and a stable operating cycle at around 90 days. Further, IMRL has sufficient cushion in its accruals vis-à-vis its debt repayment obligations (GCA of Rs.9.96 crore in FY19, as against repayments of Rs.0.36 crore in FY20) and a cash balance of Rs.4.06 crore as on March 31, 2019. Also, IMRL has low capex requirements, as it has built up adequate capacity to cater to its planned growth in turnover over the next two-three years.

Key Rating Weaknesses

Susceptibility of operating profitability to volatility in input costs: IMRL's key raw materials comprise of polyurethane (PU) chemical and galvanized steel sheets along with components made from copper and aluminum. As the prices of these products are volatile in nature (as PU is a crude oil derivative, while prices of metals are inherently volatile), it exposes IMRL's profitability to any adverse movement in the prices, since its orders are fixed price in nature. While IMRL has established its procurement practices to insulate itself from any expected volatility in raw material prices, it is also required to hold ready inventory of some of these products to cater to the time bound requirement of its clients, exposing it to volatility to some extent. However, due to the relatively short delivery schedule (2-3 months) for its products (some of which are also standardized), it is able to partly pass on any abnormal adverse movement in prices to its customers with some time lag. However, the competitive intensity in the industry acts as a major challenge for its profitability.

Competition from established players and its moderate scale of operations: Refrigeration equipment industry is majorly characterized by presence of reputed organized players including Voltas Ltd. and Blue Star Ltd. These entities are considerably larger and their scale of operations provides them with better operational and financial flexibility. This also limits the bargaining power of IMRL vis-à-vis its customers, limiting its profitability. However, IMRL positions itself as a complete solutions provider in the refrigeration equipment business and has been able to grow its scale of operations over the last few years, which also reflects the increased demand for its products as well as the quality of IMRL's products.

Analytical approach: Consolidated; IMRL has been analyzed on consolidated basis with Bharat Refrigerations Pvt. Ltd (BRPL) because BRPL is its wholly-owned subsidiary, both are engaged in similar line of business except for catering to different geographies and IMRL has been providing need-based support to BRPL. *Details of entities considered in IMRL's consolidation are shown in Annexure-3.*

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](#)
[Rating Methodology – Consolidation and Factoring linkages in Ratings](#)

About the Company

Gujarat based Ice Make Refrigeration Limited (IMRL), erstwhile known as IC Ice Make Refrigeration Pvt. Ltd., was originally established as a partnership firm and was subsequently reconstituted in 2009 as a private limited company. IMRL, promoted by Mr. Chandrakant Patel, Rajendra Patel and Mr. Vipul Patel, is engaged in the manufacturing of a wide range of refrigeration products under the brand name 'Ice Make'. The company provides refrigeration solutions including cooling, pre-cooling, mobile pre-cooling, blast chilling, blast freezing, storage and display. IMRL's products are broadly classified into five categories viz., cold room & storage products (60% of its revenue in FY19), commercial refrigeration products (20%), transport refrigeration products (10%), industrial refrigeration products (6%) and ammonia based refrigeration & other products (4%). IMRL's manufacturing facilities are located at Gandhinagar, Gujarat.

In December 2016, IMRL acquired Bharat Refrigerations Pvt. Ltd. (BRPL), a Chennai based entity with operations of over two decades in the refrigeration industry for a total consideration of Rs.2.26 crore to expand its footprint in the South Indian market.

Brief Financials of IMRL (consolidated) are tabulated below:

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total operating income	103.23	131.99
PBILDT	13.18	14.15
PAT	6.43	7.48
Overall gearing (times)	0.23	0.07
Interest coverage (times)	7.38	12.53

A – Audited;

Further, as per the published consolidated financial results for H1FY20, IMRL reported a total operating income of Rs.57.56 crore and PAT of Rs.0.61 crore, compared with a total operating income of Rs.57.47 crore and PAT of Rs.2.63 crore in H1FY19.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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/ ST-CC/PC/Bill Discounting	-	-	-	19.00	CARE BBB+; Stable / CARE A2
Term Loan-Long Term	-	-	June 2026	2.82	CARE BBB+; 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/ST-CC/PC/Bill Discounting	LT/ST	19.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (18-Feb-19)	1)CARE BBB+; Stable / CARE A2 (15-Jan-18) 2)CARE BBB+; Stable / CARE A2 (05-Jan-18)	1)CARE BBB- / CARE A3 (18-Oct-16)
2.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (18-Feb-19)	1)CARE BBB+; Stable (15-Jan-18) 2)CARE BBB+; Stable (05-Jan-18)	1)CARE BBB- (18-Oct-16)
3.	Term Loan-Long Term	LT	2.82	CARE BBB+; Stable	-	-	-	-

Annexure-3: List of entities consolidated in IMRL as on March 31, 2019

Sr. No.	Name of entity	Domicile	% Shareholding of IMRL as on March 31, 2019	Primary business activity of the entity
1.	Bharat Refrigerations Pvt. Ltd.	India	100%	Manufacturing of refrigeration products

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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