Iclean hollow Metal Systems Private Limited

June 17, 2019

Ratings

Instrument	Amount (Rs crore)	Rating	Rating Action
Long-term Bank Facilities@	10.00 (Enhanced from 8.00)	**CARE A (SO); Stable [Single A (Structured Obligation); Outlook: Stable]**	**Reaffirmed**
Short-term Bank Facilities@	6.00 (Enhanced from 4.00)	**CARE A2+ (SO) [A Two Plus (Structured Obligation)]**	**Reaffirmed**
Total facilities	**16.00 (Rupees Sixteen crores only)**		

Details of instruments/facilities in Annexure-1

@ backed by the unconditional and irrevocable corporate guarantee provided by Integrated Cleanroom Technologies Private Limited (rated 'CARE A; Stable/CARE A2+').

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Iclean hollow Metal Systems Private Limited are based on credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by Integrated Cleanroom Technologies Private Limited (rated CARE A; Stable / CARE A2+)

The ratings assigned to the bank facilities of Integrated Cleanroom Technologies Private Limited continue to take into account the significant increase in stake by well-established Japanese player and the synergies derived therefrom. The ratings further continues to derive strength from experienced promoters with established track record, healthy growth in total operating income and stable profitability margins during FY18 (refers to the period April 01 to March 31), comfortable capital structure, reputed and diversified clientele base with moderate order book position. The ratings strengths are, however, tempered by working capital intensive nature of operations, debt funded capex, presence in moderately competitive industry and margins being susceptible to increase in raw material costs.

The ability of the company to complete the debt funded capex without time and cost overrun, execute the orders on hand in a timely manner and manage working capital efficiently are the key rating sensitivities.

Detailed description of the key rating drivers (Integrated Cleanroom Technologies Private Limited)

Key Rating Strengths

Significant increase in stake by well-established Japanese player and the synergies derived therefrom:

During FY18, Takasago Thermal Engineering Company Limited (TTE), a Japanese based company which is well known for its design and development of heating, ventilation and air conditioning (HVAC) systems has increased its equity stake in ICTL has increased from 33.55% to 57.07%, making it the biggest shareholder. TTE was established in 1923 and provides comprehensive system engineering services with a focus on Heating, Ventilation and Air Conditioning (HVAC) systems. TTE is listed on Tokyo Stock Exchange and during FY18 it has reported turnover of ¥ 289.93 billion. TTE being a well-established player with executing projects around the world has bought refined skills and technical know-how to ICTL helping it to increase its presence in the market. With the support of TTE, ICTL proposes to improve its market share going forward.

Experienced Promoters with established track record:

Mr. Gopi, Managing Director, is an Engineering graduate (B.E – Mechanical) with more than two decades of experience which includes around 12 years in the clean room industry. Prior to promoting ICTL, he was associated with Lupin Limited and Orchid Pharmaceuticals Ltd. The other promoters of the company, Mr. U Srinivasa Murthy and Mr. D Narendra have experience of around two decades. All the promoters & directors are actively involved in the day to day operations of the company and are supported by experienced professionals under various departments. Further, with a well-established and more than a nine decades track record of TTE on board, which provides comprehensive system engineering services with a focus on Heating, Ventilation and Air Conditioning (HVAC) systems august the operations of ICTL.

Healthy growth in total income and stable profitability margins

At consolidated level, the total operating income of ICTL registered a Y-o-Y growth of 9.38% during FY18 mainly due to increased demand in the market from the existing as well as new clients. PBILDT margin during FY18 improved marginally to 14.93% from 14.16% during FY17 on account of increase in sales from the accessories segment wherein the realizations are better. Further, due to commensurate increase in PBILDT margin, PAT margin improved marginally and stood at 7.27% during FY18 (FY17: 6.91%).

Comfortable financial risk profile
During FY18, financial risk profile of the company remained comfortable at consolidated level marked by overall gearing of 0.36x as on March 31, 2018 (0.39x as on March 31, 2017). The total debt to GCA and interest coverage ratio of the company although deteriorated from 1.65x and 10.18 during FY17 to 1.86x and 7.12 during FY18 are still comfortable.

Reputed and diversified clientele base with moderate order book position: ICTL caters to some of the reputed names in pharmaceutical industry such as Cipla Limited, Lupin Limited, Serum Institute of India Pvt. Ltd, Sun Pharmaceutical Industries Ltd, etc, who have been with them for last 10 years of operations. Initially ICTL used to supply materials to pharmaceutical sector but now it has broadened its customer base to scientific research, educational institutions and also to food processing sector. ICTL as on August 09, 2018 stood at Rs. 301.82 crore as against Rs. 272.85 crore of order book as on August 08, 2017. ICTL's order book is from both, turnkey projects and manufacturing & installation.

Key Rating Weaknesses
Moderate liquidity position given the working capital intensive nature of operations:
The cleanroom equipment's are made of galvanized iron sheets and aluminum sheets which are procured with a credit period of 45 to 60 days. The company maintains inventory of 30 to 45 days as ICTL's operations are contractual in nature wherein the company manufactures at its unit and installs prefabricated modular clean room and clean room equipment's at client's place. Gestation period for the projects vary from 9 months to 3 years and the invoice for the whole project is raised at the time of initiating works for the project. The company allows 60 days credit period for the material supplied and the balance payment is received as and when the project is handed over to the client which varies from 9 months to 3 years, leading to an overall working capital cycle of 140 to 145 days. Despite of stretched debtor position, the average working capital utilization was on comfortable side at 71.75% for last one year period ending July 2018. Nevertheless, company had relatively comfortable cash balance of Rs.8.48 crore as on March 31, 2019.

Debt funded capex
During FY18, the company has acquired 14.88 acres land in Yellampet, Medchal district, Telangana. The company proposes to develop an industrial shed and relocate its rented facilities and godowns to the owned premises. The capex is expected to be completed at a total cost of Rs. 48.90 crore funded through Rs. 34.40 crore of term loans and Rs. 14.50 crore of internal accruals. With completion of the project the total installed capacity is expected to increase to 4,50,000 square meters per annum from current level of 4,00,000 square meters per annum. The land at Yellampet was purchased at a total cost of Rs. 14.50 crore entirely funded through internal accruals. Further, the company has approached lenders for the debt tie up, and the same is under process. The company expects to commence its operations from the new facility by Q4FY19 end.

Moderately competitive industry albeit margins are susceptible to increase in raw material costs:
Clean room industry is characterized by few small players competing amongst each other. However, the company majorly caters to reputed players in the pharmaceutical industry wherein the companies need to adhere with international standards such as USFDA, EDQM etc in order to maintain the aseptic and sterile environment. As the company is providing unique solution and operating in niche segment the number of players providing such technology services are limited. These products are primarily made of galvanized iron sheets and aluminum sheets. ICTL margins are exposed to raw material price fluctuations as it does not have price variation clause included in the orders which makes the margins susceptible to the change in the prices of key raw materials.

Analytical approach: Consolidated; the consolidated business and financial risk profiles of ICTL and its subsidiaries namely ICTL Precoat Panels Private Limited, I Pharm Process Technologies Private Limited, I-Clean hollow Metal Systems Private Limited, I-Clean technologies Inc. USA have been considered as these companies are subsidiaries of ICTL and have financial and operational linkages. Further, Bank facilities of Iclean hollow Metal Systems Private Limited are backed by the unconditional and irrevocable corporate guarantee provided by Integrated Cleanroom Technologies Private Limited (rated 'CARE A; Stable/CARE A2+').

Applicable Criteria
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology-Manufacturing Companies

About the company
Incorporated in 2015, Iclean Hollow Metal Systems Private Limited (IHPL) was promoted by Mr. K. Gopi. Mr. Gopi, Managing Director, is an Engineering graduate (B.E Mechanical) with more than two decades of experience which includes around 11 years in the clean room industry. Mr. K. Gopi has also promoted Integrated Cleanroom Technologies Private Limited (ICTL) which holds 70.03% in IHPL. The company has commenced commercial operations in December 2015 and is engaged in manufacturing of doors for cleanroom and industrial application.

About the Guarantor
Integrated Cleanroom Technologies Private Limited (ICTL), erstwhile Integrated Cleanroom Technologies Limited was incorporated in May 2003 by Mr. K. Gopi. During Feb 2014, ICTL converted the company from public limited to private holding and changed the company's name to current nomenclature. Further during FY18, Takasago Thermal Engineering Company Limited (TTE) a nine decades old Japanese company has increased its equity stake in ICTL to 57.07% (FY17: 33.55%) making it the biggest shareholder. TTE was established in 1923 and provides comprehensive system engineering services with a focus on Heating, Ventilation and Air Conditioning (HVAC) systems. ICTL is engaged in manufacturing of prefabricated modular clean room and clean room equipment and also into execution of turnkey projects for clean rooms. ICTL has established a manufacturing facility in Gundla pochampally (Hyderabad) with production capacity of 4,00,000 square meters.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	3,772.20	4,009.30
PBILDT	113.04	165.23
PAT	59.58	98.76
Overall gearing (times)	1.76	1.34
Interest coverage (times)	2.34	1.49

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

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	-	-	-	10.00	CARE A (SO); Stable
Non-fund-based - ST-Letter of credit	-	-	-	6.00	CARE A2+ (SO)

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	10.00	CARE A (SO); Stable	-	1)CARE A (SO); Stable (03-Oct-18)	1)CARE A (SO); Stable (04-Jan-18)	-
2.	Non-fund-based - ST-Letter of credit	ST	6.00	CARE A2+ (SO)	-	1)CARE A2+ (SO) (03-Oct-18)	1)CARE A2+ (SO) (04-Jan-18)	-

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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