Integrated Cleanroom Technologies Private Limited

December 10, 2019

Ratings

Instrument	Amount (Rs. Crore)	Ratings	Remarks
Long-term bank facilities	44.15 (Reduced from 47.26)	**CARE A; Stable (Single A; Outlook – Stable)**	Reaffirmed
Short-term bank facilities	28.00	**CARE A2+ (A Two Plus)**	Reaffirmed
Long-term Bank Facilities/ Short-term Bank Facilities	145.00	**CARE A; Stable/CARE A2+ (Single A; Outlook – Stable/A Two Plus)**	Reaffirmed
Total	**217.15 (Rupees Two Hundred Seventeen crore and Fifteen lakh only**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Integrated Cleanroom Technologies Private Limited (ICTL) takes into account healthy growth in total operating income and stable profitability margins during FY19 (refers to the period April 01 to March 31). The ratings further continues to derive strength from majority stake held by well-established Japanese player and the synergies derived therefrom, experienced promoters with established track record, 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.

<u>Rating Sensitivities</u>

Positive Factors

- Execution of the orders in hand in a timely manner and significant growth in its scale of operations through optimum utilization of its expanded capacities.
- Improvement of PBILDT margin to 15% on sustained basis.
- Shortening of its operating cycle to less than 60 days on a sustained basis.

Negative Factors

- Elongated working capital days of more than 150 days on a continuous basis.
- Overall gearing of the company going above 1.00x.

Detailed description of the key rating drivers

Key rating Strengths

Majority stake held by well-established Japanese player and the synergies derived therefrom

Takasago Thermal Engineering Company Limited (TTE) holds stake of 57.07% in ICTL, 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 achieved turnover of ¥ 319.83 billion during FY19. TTE being a well-established player with executing projects around the world has brought 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, a well-established and more than a nine decades old Japanese company, Takasago Thermal Engineering Company Limited (TTE) hold 57.07% in ICTL.

Healthy growth in total operating income and stable profitability margins

At consolidated level, the total operating income of ICTL registered a Y-o-Y growth of 22.05% during FY19 mainly due to increased demand in the market from the existing as well as new clients. However, the PBILDT margin during FY19 declined marginally to 13.46% from 14.93% during FY18 on account of increase in raw material consumed during the year. Further, in line with decline in PBILDT margin, PAT margin also declined marginally and stood at 6.39% during FY19 (7.27% during FY18) on account of increase in depreciation and interest expenses incurred during the year.

Comfortable financial risk profile

During FY19, financial risk profile of the company remained comfortable at consolidated level marked by overall gearing of 0.34x as on March 31, 2019 (0.36x as on March 31, 2018). The total debt to GCA has declined marginally from 1.86x during FY18 to 1.93x during FY19, the interest coverage ratio deteriorated from 7.12x during FY18 to 6.86x during FY19.

Reputed and diversified clientele base with moderate order book position

ICTL caters to some of the reputed names in pharmaceutical industry like Cipla Limited, Covalent Laboratories Pvt Ltd, Dr. Reddy's Laboratories Limited, GlaxoSmithKline Pharmaceuticals Limited, Glenmark Pharmaceuticals Limited, Sun Pharmaceutical Industries Ltd, etc. during the last ten years of operations. The company is receiving repeated orders from the aforementioned clients for the past 10 years. Initially ICTL used to supply materials to pharmaceutical sector but now it has broadened its customer base to scientific research, educational institutions, Auto-ancillaries and also to food processing sector. Further, the outstanding order book position of ICTL as on September 14, 2019 stood at Rs.254.46 crore as against Rs.301.82 crore of order book as on August 07, 2018.

Industry Outlook

The increasing demand from end-users such as the medical industry, semiconductor industry, food industry, research industry and automotive industry is expected to fuel the growth. Particularly in pharma and biotechnology industry, cleanroom technology is crucial for the manufacture of sterile pharmaceutical products. Overall drivers of demand for cleanroom technology in the pharma industry include the generally healthy growth of the industry, increasingly strict regulatory requirements, the increasing potency of many new small-molecule and biologic drugs that require special containment systems and operating procedures, and increase safety operator safety requirements.

Prospects

The prospects of ICTL depend on its ability to further diversify its customer base apart from the existing sectors to which it is catering. Also, its ability to execute the orders on hand in a timely manner and realize the debtors on time will be critical from a credit perspective.

Key Rating Weaknesses

Conclusion of debt funded Capex

During FY18, the company had acquired 14.88 acres land in Yellampet, Medchal district, Telangana. The company proposed to develop an industrial shed and relocate its rented facilities and godowns to the owned premises. Currently facilities at Unit 3, Unit 5, Unit 6, Unit 7 and godown 1&2 which are at various places in Telangana are to be shifted to the said location. The total cost of the capex was estimated to be Rs.57.06 crore funded through Rs.34.40 crore of term loans and Rs.22.66 crore of internal accruals. The company completed the project in October 2019 and the total installed capacity has increased to 4,50,000 square meters per annum from current level of 4,00,000 square meters per annum. The said capex begun during FY18 wherein 14.88 acres of land at Yellampet was purchased at a total cost of Rs.14.50 crore entirely funded through internal accruals. Thereafter, the company incurred Rs.11.55 crore during FY19 which was entirely funded through term loans. Remaining Rs.31.01 crore of capex was executed during 7MFY20 and was funded through term loan to the extent of Rs.22.85 crore and balance through internal accruals of Rs.8.16 crore.

Working capital intensive nature of operations

A cleanroom equipment are primarily 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 40 to 55 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 receivables turnover of 120 to 145 days. Despite of stretched debtor position, the average working capital utilization was on comfortable side at 25.38% for last one year period ending September 2019.

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.

Liquidity: Adequate
The Liquidity position of the company is adequate as represented by the current ratio which stood at 1.68x as on March 31, 2019 as against 1.58x as on March 31, 2018. The company has also completed capex of Rs.57.06 crore which started in FY18 and was funded through term loans to the extent of Rs.34.40 crore and balance through internal accruals. The average fund based working capital utilization of the company ending September 2019 remained low at 25.38%. The company at consolidated level has generated gross cash accruals of Rs.39.02 crore during FY19 and at standalone level has generated GCA of Rs.26.23 crore during H1FY20. Considering the unutilized working capital limits along with GCA generated during FY19 (consolidated) and during H1FY20 (Standalone), the company is expected to meet its debt obligations of Rs.9.56 crore for FY20 comfortably (Out of Rs. 9.56 crore the company has already Rs.3.67 crore till November 2019).

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 which opera te in the same line of business and have financial and operational linkages.

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

About the company
Integrated Cleanroom Technologies Private Limited (ICTL), erstwhile Integrated Cleanroom Technologies Limited was incorporated in May 2003 by Mr. K. Gopi. During Feb 2014, ICTL was converted 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%) thereby making TTE the biggest shareholder in ICTL. 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 4,50,000 square meters.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Consolidated) (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	399.79	487.97
PBILDT	59.70	65.69
PAT	29.07	31.19
Overall gearing (times)	0.36	0.34
PBILDT Interest coverage (times)	7.12	6.86
PBIT Interest Coverage (times)	6.30	6.01

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	37.00	CARE A; Stable
Fund-based - LT-Term Loan	-	-	-	December 2022	7.15	CARE A; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	28.00	CARE A2+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	-	131.00	CARE A; Stable / CARE A2+
Fund-based - LT/ ST-Stand by Line of Credit	-	-	-	-	14.00	CARE A; Stable / CARE A2+

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	37.00	CARE A; Stable	-	1)CARE A; Stable (03-Oct-18)	1)CARE A; Stable (24-Nov-17) 2)CARE A; Stable (03-Nov-17) 3)CARE A-; Stable (04-May-17)	1)CARE A-; Stable (31-Mar-17)
2.	Fund-based - LT-Term Loan	LT	7.15	CARE A; Stable	-	1)CARE A; Stable (03-Oct-18)	1)CARE A; Stable (24-Nov-17) 2)CARE A; Stable (03-Nov-17) 3)CARE A-; Stable (04-May-17)	1)CARE A-; Stable (31-Mar-17)
3.	Non-fund-based - ST-Letter of credit	ST	28.00	CARE A2+	-	1)CARE A2+ (03-Oct-18)	1)CARE A2+ (24-Nov-17) 2)CARE A2+ (03-Nov-17) 3)CARE A2+ (04-May-17)	1)CARE A2+ (31-Mar-17)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	131.00	CARE A; Stable / CARE A2+	-	1)CARE A; Stable / CARE A2+ (03-Oct-18)	1)CARE A; Stable / CARE A2+ (24-Nov-17) 2)CARE A; Stable / CARE A2+ (03-Nov-17) 3)CARE A-; Stable / CARE A2+ (04-May-17)	1)CARE A-; Stable / CARE A2+ (31-Mar-17)
5.	Fund-based - LT/ ST-Stand by Line of Credit	LT/ST	14.00	CARE A; Stable / CARE A2+	-	1)CARE A; Stable / CARE A2+ (03-Oct-18)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities - NA

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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