Patels Airtemp (India) Limited

November 19, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	70.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long-term/Short-term Bank Facilities	35.00	CARE BBB+; Stable/CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Long-term rating reaffirmed and Short-term rating revised from CARE A2+ (A Two Plus)
Short-term Bank Facilities	7.00	CARE A2 (A Two)	Revised from CARE A2+ (A Two Plus)
Total Facilities	**112.00 (Rs. One hundred and twelve crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The revision in short-term rating assigned to the bank facilities of Patels Airtemp (India) Limited (PAIL) takes into account increase in working capital intensity marked by elongation of operating cycle with significant increase in inventory levels as on March 31, 2019 and September 30, 2019 and high utilization of its non-fund based limits.

The ratings assigned to the bank facilities of PAIL continue to derive strength from vast experience of its promoters along with established track record of the company in the process equipment industry which is supported by various product certifications and reputed clientele. The ratings also factor its comfortable capital structure and its healthy order book as on November 1, 2019.

The ratings, however, continue to be constrained on account of its moderate scale of operations, large working capital requirement, concentrated revenue stream in terms of product offerings and clientele; and its exposure to fluctuations in raw material prices and foreign exchange rates.

Rating Sensitivities

Positive Factors

- Significant increase in scale of operation along with improvement in PBILDT margin to more than 15% on sustained basis.
- Improvement in operating cycle to less than 150 days on sustained basis
- Improvement in debt coverage indicators with TD/GCA to below 2 times and interest coverage above 8 times while maintain overall gearing below 0.50 times on sustained basis.

Negative Factors

- Deterioration in overall gearing above unity and debt coverage indicators; TD/GCA to 6 times and interest coverage below 2.5 times on sustained basis.
- Any major debt funded capex project
- Decline in PBILDT margin below 9% on sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of promoters

PAIL is managed by three generations of the family members. Mr. Narayanbhai Patel, aged 80 years, is the Chairman of PAIL and looks after the overall operations and has total work experience of more than four decades. Further, the next generation of the family, Mr. Sanjiv Patel is Managing Director of PAIL (Son of Mr. Narayanbhai Patel) and has been actively involved in the business since more than a decade and looks after production activities. Mr. Shivang Patel (Grandson of Mr. Narayanbhai Patel) has been appointed as an Executive Director on June 01, 2019 after the demise of Mr. Prakash Patel (Son of Narayanbhai Patel). Further, the present board of directors of PAIL consists of five executive directors and six independent directors.

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

Established track record of operation in process equipment industry with various product certifications and reputed clientele
PAIL has long-standing operational track-record of more than four decades (including the period when it was constituted as a partnership firm) in the business of design and fabrication of process equipment & engineering goods. PAIL is ISO 9001:2015 certified company and it offers customised solution of air cooled and shell type heat exchangers, pressure vessels and special storage tanks for oil and chemical storage. The products of PAIL are one of the critical components of oil refineries, nuclear reactors and power generation facilities where it helps in transfer of heat from one medium to another without mixing the two. PAIL also holds "U", "U2", "S" and "N-NPT" stamp authorization certifications issued by American Society of Mechanical Engineers (ASME) and is the member of Heat Transfer Research Inc. (HTRI), U.S.A for updating heat transfer technology. The products of PAIL are approved by some of the major third party inspection agencies and consultants like Bureau Veritas, TUV, Engineers India Ltd., SGS India Pvt. Ltd, etc. PAIL is also planning to undertake expansion project to setup another processing unit nearby which is expected to be funded from internal accruals.
PAIL's products cater to diverse industries like oil & gas, petroleum refineries, chemicals, pharmaceuticals, fertilizers, refrigeration and air conditioning plants, etc. Most of its clientele enjoy leading position in their respective industry segment resulting into lower counter party credit risk. PAIL undertakes tender based work with large order value wherein top 5 customers contributed around 64% in FY19 (FY18: 72%).

Comfortable capital structure
Capital structure of PAIL continued to remain comfortable with overall gearing of 0.53 times and TOL/TNW of 1.37 times as on March 31, 2019 as against overall gearing of 0.41 times and TOL/TNW of 0.96 times as on March 31, 2018; some moderation is on account of increase in working capital debt. Debt coverage indicators also remained at moderate level marked by PBILDT interest coverage ratio of 3.61 times and total debt/gross cash accruals of 4.28 times and TD/PBILDT of 2.32 times during FY19.

Healthy orderbook
PAIL has long and established relationship with its reputed clientele leading to consistent flow of orders. PAIL has unexecuted order book of Rs. 478.05 crore as on November 1, 2019 translating into order-book to sales ratio of 3.15 times as against Rs. 319 crore as on November 01, 2018 (2.02 times of FY18), which provides medium term revenue visibility.

Key Rating Weaknesses
Increase in working capital intensity with elongation of operating cycle
PAIL operates in capital goods industry in which work order is large in size and has longer execution period of six months to eighteen months. Goods manufactured by PAIL are generally used in large size refining/chemical projects, where it faces challenges in terms of delay in delivery of the goods due to delay in overall project execution by EPC contractor. During FY19, operating cycle of PAIL elongated to 250 days with increase in inventory levels to Rs. 71.84 crore as on March 31, 2019 as against Rs. 50.80 crore as on March 31, 2018 which further increased to Rs.96.33 crore as on September 30, 2019 reflecting higher working capital intensity. Net working capital as percentage of TOI (Total Operating Income) has increased to 59% as on Mach 31, 2019 as against 50% as on March 31, 2018. Moreover, the working capital requirement of the company is influenced by funding requirement towards the security deposits, retention amount and margin money for the non-fund-based facilities. Average non-fund based working capital utilisation remained high at 97% for the past twelve month ended on October, 2019.

Moderate scale of operation and profitability
Despite long track record, the scale of operation of PAIL remained at moderate levels with growth prospects linked to the capex cycle of engineering, petroleum and oil & gas industry. During FY19, TOI decline marginally by 4% to Rs.151.74 crore. However, during H1FY20, it has reported healthy growth of 47% in TOI to Rs. 103.82 crore compared to Rs. 70.76 crore during H1FY19.
Profit before interest, lease, depreciation and tax (PBILDT) margin declined marginally by 78 bps to 11.96% during FY19 (FY18: 12.74%). PAT margin also declined by 61 bps to 4.82% during FY19 (FY18: 5.43%). However, it remained at moderate level. During H1FY20, it has reported TOI of Rs. 103.82 crore with PBILDT margin of 10.66% and PAT margin of 5.09%.

Profitability susceptible to volatile raw material prices and foreign exchange fluctuation
Metal (Mild-steel as well as Stainless-steel) sheets, plates, tubes, pipes and other components account for 75% to 80% of PAIL's raw material cost. The inherent volatility in their prices could impact the company's profitability. This results into risk of price fluctuations on the inventory of raw materials as well as finished goods. However, PAIL has back to back arrangement for booking of raw materials with the orders which mitigates the raw material price fluctuation risk to some

extent. Further, PAIL also sources part of its raw material requirements from international markets and is consequently exposed to adverse fluctuation in foreign currency exchange rates especially in the absence of an active hedging policy.

Limited product offering leading to revenue concentration
PAIL has limited product offerings with Shell heat exchangers and air cooled heat exchangers continuing to be the major contributors of its revenue stream. Further, its top five customers contributed around 59% to 72% of net sales during last four years ended FY19. However, PAIL is not reliant on repeat business from any one or group of client and composition of its major customers also keeps changing resulting in lower business risk.

Liquidity: Adequate
Despite the high working capital intensity, liquidity of PAIL is adequate marked by no term loan repayment obligations, moderate fund based working capital limit utilization and healthy unencumbered cash and bank balance of Rs. 14.15 crore and customer advances of Rs. 38.13 crore as on March 31, 2019 (Rs.4.11 crore and Rs.8.99 crore as on March 31, 2018 respectively). The average fund based working capital utilisation remained at moderate level of 58% while average non-fund based working capital utilisation remained high at 97% for the past twelve month ended on October, 2019.

Analytical approach: Standalone

Applicable Criteria:
[Criteria on assigning Outlook and Credit Watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Financial ratios – Non-Financial Sector]
[Rating Methodology- Manufacturing companies]

About the Company
Incorporated in 1973 as Patel Airtemp by Mr. Narayanbhai Patel, engaged in business of design and fabrication of process equipment and engineering goods. Later in June 1993, it was converted into limited company and changed its name to Patels Airtemp (India) Limited (PAIL). PAIL is engaged in the manufacturing of capital goods equipment like heat exchangers, pressure vessels, air conditioning and refrigeration equipment etc. and execution of turnkey heating, ventilation and air conditioning (HVAC) projects.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	158.69	151.74
PBILDT	20.21	18.14
PAT	8.61	7.32
Overall gearing (times)	0.41	0.53
Interest coverage (times)	4.16	3.61

A-Audited
PAIL reported TOI of Rs.103.82 crore and PAT of Rs.5.29 crore during H1FY20 (UA) compared to TOI of 70.76 crore and PAT of Rs.3.16 crore reported during H1FY19 (UA).

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-Cash Credit	-	-	-	35.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT-Bank Guarantees	-	-	-	70.00	CARE BBB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	7.00	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/ ST-Cash Credit	LT/ST	35.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2+ (12-Dec-18)	1)CARE BBB+; Stable / CARE A2+ (08-Dec-17)	1)CARE BBB+; Stable / CARE A2+ (19-Dec-16)
2.	Non-fund-based - LT-Bank Guarantees	LT	70.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (12-Dec-18)	1)CARE BBB+; Stable (08-Dec-17)	1)CARE BBB+; Stable (19-Dec-16)
3.	Non-fund-based - ST-Letter of credit	ST	7.00	CARE A2	-	1)CARE A2+ (12-Dec-18)	1)CARE A2+ (08-Dec-17)	1)CARE A2+ (19-Dec-16)

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.*

Contact Us

Media Contact
Mr. Mradul Mishra
Contact No.: +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Mr. Akhil Goyal
Contact No.: +91-79-4026 5621
Email ID – akhil.goyal@careratings.com

Relationship Contact
Mr. Deepak Prajapati
Contact No.: +91-79-4026 5656
Email ID – deepak.prajapati@careratings.com

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