Patels Airtemp (India) Limited (Revised)

December 12, 2018

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 Plus)**	**Reaffirmed**
Short-term Bank Facilities	7.00	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Total Facilities	**112.00 (One hundred and twelve crore)**		

Details of facilities in Anneuxre-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Patels Airtemp (India) Limited (PAIL) continue to derive strength from vast experience of the promoters, its long and established track record of more than four decades in the process equipment industry supported by various product certifications and reputed clientele across multiple end-user industries and healthy order-book. The ratings also continue to factor in financial risk profile marked by steady growth in total operating income (TOI) along with stable profitability margin, comfortable capital structure and adequate liquidity.

The ratings, however, continue to be constrained on account of moderate scale of operations, intensive 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.

The ability of PAIL to significantly scale up its operations while diversification in revenue profile, improvement in profitability and timely execution of orders while further strengthening the order book are the key rating sensitivities. Further, efficient management of working capital and continue comfortable capital structure is also crucial from credit perspective.

Detailed description of the key rating drivers

Key Rating Strength

Vast experience of the promoters with an established track record: Mr Narayanbhai G Patel, Chairman of PAIL, have long-standing operational track-record of more than four decades in the business of design and fabrication of process equipment and engineering goods. Further, he is supported by the next generation of the family, Mr Prakash Patel and Mr Sanjiv Patel who are actively involved in the day to day business since more than one decade.

Product certification from all major third party inspection agencies & consultants: PAIL holds “U”, “U2”, “S”, “R” stamp authorization certification issued by American Society of Mechanical Engineers (ASME) along with accredited “N” & “NPT” (nuclear safe). Air Cooled and Shell Type Heat Exchangers are the flagship products which are one of the critical components of Oil refineries, nuclear reactors and power generation facilities. The products of PAIL are approved by all major third party inspection agencies and consultants like, Bureau Veritas, TUV, Engineers India Ltd., SGS India Pvt. Ltd, etc.

Reputed clientele across multiple end user industry: PAIL has long and established relationship with reputed players belonging to industries like petroleum, chemicals, pharmaceuticals, fertilizers etc. Most of its clientele enjoy leading position in their respective industry segment resulting into lower counter party credit risk. This diversification across various industries also mitigates the risk associated with cyclicality in respective industries.

Steady growth in operating income along with healthy order book: Consistent flow of orders and improvement in execution capabilities led to healthy growth in scale of operations of PAIL marked by Compounded Annual Growth Rate (CAGR) of 12% registered in Total Operating Income during last four years ended FY18. PAIL’s unexecuted order-book

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

increased to Rs.319 crore (2.02 times of FY18 TOI) as on November 01, 2018 compared to order-book of Rs.238 crore (1.74 times of FY17 TOI) which provides sufficient revenue visibility over near to medium term.

Comfortable leverage and debt coverage indicators: The overall gearing which deteriorated as on March 31, 2018 compared to March 31, 2017 due to higher utilization of fund based limits, continued to remain comfortable. Further, other debt-coverage indicators like interest coverage and total debt/GCA also marginally weaken although remained comfortable during the year on account of healthy cash accruals.

Adequate Liquidity

The company operates under the capital goods industry which is working capital intensive. However, PAIL has adequate liquidity supported by healthy customers' advances, steady cash accruals and absence of committed term loan repayment obligations. The liquidity indicators of PAIL remained comfortable marked by strong current ratio, unencumbered cash and bank balance of Rs.4.11 crore on March 31, 2018 and moderate utilization of its fund based working capital limits for past 12 months ended September 2018.

Pace of implementation of announced capex likely to drive the performance of the capital goods sector: PAIL operates in capital goods industry which has remained subdued since FY12 on account of slowdown in the global economy. However, the outlook for capital goods sectors remains stable with recovery expected in the medium term on the back of outsourcing of engineering services to India, increased focus of government on infrastructure. Further opening up of various sectors for foreign direct investments could also act as a catalyst.

Key Rating Weakness

Modest scale of operations: Despite long track record of over 4 decades, the scale of operations of PAIL remained modest marked by total operating income of Rs.159 crore, PAT of Rs.9 crore during FY18 and tangible net-worth of Rs.74 crore as on March 31, 2018. The modest scale of operations restricts the bargaining power of the company with large customers and also restricts the financial flexibility of the company.

Over the years the PBILDT margin of PAIL remained stable and moderate in the range of 12-14% over past four years ended FY18. The PAT also margins although declined marginally and remained at around 5%-6% during last four years ended FY18 due to increase in interest cost.

Limited product offering leading to revenue concentration: PAIL has limited product offerings with Shell heat exchangers and air cooled heat exchangers continues to be the major contributor of its revenue stream. Further, its top five customers contributed around 62% to 68% of net sales during last three years ended FY18. 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.

Working capital intensive operations: PAIL operates in capital goods industry which is working capital intensive. Working capital cycle of PAIL elongated during FY18 due to increase in inventory holding period. The operating cycle is expected to remain long mainly due to order based nature of operations and longer execution period of the orders. 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.

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 accounts for nearly 75% of its raw material cost used by PAIL. 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 parts of its raw material requirements from international markets however PAIL is net exporter and exposed to adverse fluctuation in foreign currency exchange rates especially in the absence of an active hedging policy.

Analytical approach: Standalone

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

About the Company

Incorporated in 1992, PAIL was promoted by Mr. Narayanbhai Patel & Associates who have been in the business of design and fabrication of process equipment and engineering goods since 1973. 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)	FY17 (A)	FY18 (A)
Total Operating Income	136.61	158.69
PBILDT	17.84	20.21
PAT	7.91	8.61
Overall Gearing (times)	0.35	0.41
Interest Coverage (times)	5.90	4.16

A – Audited

PAIL reported total operating income of Rs.70.76 crore and PAT of Rs.3.16 crore during H1FY19 (UA) compared to total operating income of 53.61 crore and PAT of Rs.3.01 crore reported during H1FY18.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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.*

Analyst Contact
Name: Mr. Krunal Modi
Tel: 079-40265614
Mobile: +91-8511190084
Email: krunal.modi@careratings.com

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About CARE Ratings:

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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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	35.00	CARE BBB+; Stable / CARE A2+	-	1)CARE BBB+; Stable / CARE A2+ (08-Dec-17)	1)CARE BBB+; Stable / CARE A2+ (19-Dec-16)	1)CARE BBB+ / CARE A2+ (06-Oct-15)
2.	Non-fund-based - LT-Bank Guarantees	LT	70.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (08-Dec-17)	1)CARE BBB+; Stable (19-Dec-16)	1)CARE BBB+ (06-Oct-15)
3.	Non-fund-based - ST-Letter of credit	ST	7.00	CARE A2+	-	1)CARE A2+ (08-Dec-17)	1)CARE A2+ (19-Dec-16)	1)CARE A2+ (06-Oct-15)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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