

Press Release

Air Control and Chemical Engineering Company Limited (ACCECL)

March 20, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.37.60 crore
Long Term Rating	SMERA B+/Stable (Reaffirmed)
Short Term Rating	SMERA A4 (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA B+**' (read as SMERA B plus) and short term rating of '**SMERA A4**' (read as SMERA A four) on the Rs.25.60 crore bank facilities of Air Control and Chemical Engineering Company Limited (ACCECL). The outlook is '**Stable**'.

SMERA has also withdrawn the rating of SMERA B+ (read as SMERA B plus) with immediate effect on the project specific cash credit facility of Rs. 12.00 crore on account of full payment of dues against the rated facilities.

The ratings have been reaffirmed on account of weak financial risk profile and declining profitability. The ratings are further constrained by the modest-scale of operations and working capital intensive business. However, the ratings draw comfort from the experienced management, reputed clientele and healthy order book position.

List of key rating drivers and their detailed description

Weaknesses:

Modest scale of operations: The company has modest scale of operations with revenue of around Rs.47.10 cr in FY2016 which has marginally increased from Rs.42.81 cr in FY2015. Further, the company has earned revenue of Rs.15.00 cr from April to November, 2016.

Declining profitability: The operating margins declined from 12.88 per cent in FY2015 to 10.11 per cent in FY2016. This was mainly on account of delay in completion of projects of Pipavav Defence and Offshore Engineering Company Limited and Mazagaon Dock Limited and absence of the price escalation clause thereby increasing the cost. High interest cost due to additional project loans added to the decline in profitability of the company. However, the company has taken corrective measures and included the price escalation clause in the major projects from Pipavav Defence and Offshore Engineering Company Limited and Mazagaon Dock Limited, thus partially mitigating the risk of raw material price fluctuations.

Weak financial risk profile: The gearing continued to be high at 2.36 times as on March 31, 2016. Further the interest coverage ratio deteriorated from 1.58 times in FY2015 to 1.22 times in FY2016 owing to decline in profitability. The DSCR stood at 1.09 times in FY2016.

Working capital intensive operations: The GCA stood at a high of around 402 days mainly on account of high debtors of 235 days and inventory holding of around 163 days as on March 31, 2016. Further the working capital limit utilisation was high at around 99 per cent from April to September, 2016.

Strengths:

Experienced management: Mr. B. R. Daga, Managing Director, has experience of over four decades in a similar line of business.

Reputed clientele: ACCECL has long standing relationship of more than four decades with government entities such as the Indian Railways and Indian Navy. The company also has orders from Pipavav Defence and Offshore Engineering Company Limited and Mazagaon Dock Limited.

Healthy order book position: The company has healthy order book position with pending orders of Rs.62.99 cr (as on December, 2016), which include orders of Rs.54.95 crore from Pipavav Defence and Offshore Engineering Company Limited and Mazagaon Dock Limited. ACCECL's healthy order book provides moderate revenue visibility for the medium term. However, timely receipt of payments from clients and completion of projects as per schedule are key rating sensitivities.

Analytical approach: SMERA has considered the standalone financial and business risk profiles to arrive at the ratings.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios & Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that ACCECL will maintain a stable outlook over the medium term owing to its experienced management and established relations with clients. The outlook may be revised to 'Positive' in case the company registers strong growth in revenues while achieving sustained improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and profit margins.

About the Rated Entity

ACCECL, incorporated in 1961, is a Gujarat-based company owned and managed by Mr. B. R. Daga and Mr. Vishal Daga. The company, apart from providing turnkey solutions in refrigeration and air-conditioning, is also engaged in the manufacturing of compressors and fans.

For FY2015-16, ACCECL reported profit after tax (PAT) of Rs.0.19 cr on operating income of Rs.47.10 cr, as compared to profit after tax (PAT) of Rs.0.69 cr on operating income of Rs.42.81 cr in FY2014-15.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Term Loan	ST	1.20	SMERA B+ (Reaffirmed)	30 Dec 2015	SMERA B+ (Assigned)	-	-	-	-
Cash Credit	LT	14.05	SMERA B+ (Reaffirmed)	30 Dec 2015	SMERA B+ (Assigned)	-	-	-	-
Project Specific Cash Credit	LT	12.00	SMERA B+ (Withdrawn)	30 Dec 2015	SMERA B+ (Assigned)	-	-	-	-
Project Specific Bank Guarantee	ST	1.85	SMERA A4 (Reaffirmed)	30 Dec 2015	SMERA A4 (Assigned)	-	-	-	-
Bank Guarantee	LT	7.00	SMERA A4 (Reaffirmed)	30 Dec 2015	SMERA A4 (Assigned)	-	-	-	-
Letter of Credit	LT	1.50	SMERA A4 (Reaffirmed)	30 Dec 2015	SMERA A4 (Assigned)	-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs in crore)	Ratings/Outlook
Term Loan	NA	NA	NA	1.20	SMERA B+ (Reaffirmed)
Cash Credit	NA	NA	NA	14.05	SMERA B+ (Reaffirmed)
Project Specific Cash Credit	NA	NA	NA	12.00	SMERA B+ (Withdrawn)
Project Specific Bank Guarantee	NA	NA	NA	1.85	SMERA A4 (Reaffirmed)
Bank Guarantee	NA	NA	NA	7.00	SMERA A4 (Reaffirmed)
Letter of Credit	NA	NA	NA	1.50	SMERA A4 (Reaffirmed)

Note on complexity levels of the rated instrument: <https://www.smerra.in/criteria-complexity-levels.htm>

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head –Ratings Operations, SMERA Bond Ratings Tel: 022-67141190 Email: vinayak.nayak@smerra.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smerra.in
Reema Gangola, Rating Analyst, Tel:022-67141111 Email: reema.gangola@smerra.in	

ABOUT SMERA

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