

Press Release

Enpro Industries Private Limited

02 January, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 260.50 Cr
Long Term Rating	SMERA BBB/Positive
Short term Rating	SMERA A3+

*Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BBB**' (**read as SMERA triple B**) and short term rating of '**SMERA A3+**' (**read as SMERA A three plus**) on the Rs. 260.50 crore bank facilities of Enpro Industries Private Limited (EIPL). The outlook is '**Positive**'.

Established in 1988 as a proprietorship firm, EIPL, a Pune-based company was converted into private limited in 1999. The company is engaged in the manufacturing and designing of mechanical fluid systems such as lube oil systems, filtration skids, fuel handling skids among others used in power, petrochemical, refineries and process industries. EIPL has operations in North America, Middle East, Europe, Japan and Korea to cater to the export market. The manufacturing facility is located at Alandi, Pune.

List of key rating drivers and their detailed description:

Strengths:

Established track record of operations

EIPL is engaged in the manufacturing and designing of mechanical fluid systems since 1988. Over the years, the company has been able to maintain long term relations with customers and suppliers. The company has been catering to reputed clients including Reliance Industries Limited, Siemens Limited, Sulzer Pumps India Limited, etc. for over a decade. This has helped the company get repeat orders.

Improvement in profit margins and strong growth in revenues expected in FY2018

The operating margins improved to 23.16 per cent in FY2017 from 17.72 per cent in FY2016 on account of healthy growth in export margins. Over the years, the company has enjoyed strong margins due to value added nature of business. This has in turn led to strong cash accruals. Also, the company has incurred a capex of Rs. 43 crore in FY2018 for plant expansion funded by long term borrowings. This is expected to be completed by May 2018 and result in strong top line growth for the company in the medium term. SMERA believes that EIPL will be able to maintain margins at around 18-20 per cent going ahead, on the back of increased exports.

Improvement in financial risk profile

The gearing improved marginally to 1.29 times as on 31 March, 2017 as against 1.64 times as on 31 March, 2016. The total outside liabilities to tangible net worth (TOL/TNW) has been moderate at 2.21 times as on 31 March, 2017 as against 2.97 times in the previous year. The company has healthy net worth of Rs.84.76 crore as on 31st March, 2017. The coverage

indicators are healthy as Interest Coverage Ratio (ICR) stood at 4.91 times and Debt Service Coverage Ratio (DSCR) at 2.76 times as on 31 March, 2017.

Weaknesses:

Moderation in revenue in FY2017

EIPL registered revenue of Rs.220.99 crore in FY2017, a nominal growth of 1.32 per cent over the previous year on account of nearly full capacity utilisation of the facilities. EIPL has a strong order book in hand to be completed in FY2017-18. SMERA expects EIPL to register strong revenue growth in the medium term in line with the facility expansion in place.

Working capital intensive operations

EIPL has always shown high working capital cycle days of around 200 days. However, the same improved to 270 days in FY2017 from 291 days in FY2016. EIPL maintains an inventory level for ~150 days. However, the company has been able to manage its working capital efficiently as reflected in its utilisation of bank limits. The average bank limit utilisation for six months ended Oct 2017 stood at 61.52 per cent.

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

Outlook - Positive

SMERA believes that EIPL will maintain a Positive outlook supported by expansion in facilities and a strong order book position. The rating may be upgraded if the company is able to achieve the envisaged revenue growth in the medium term with healthy operating margins. Conversely, the outlook may be revised to 'Stable' in case the company fails to achieve the expected revenue and profitability or registers significant deterioration in its capital structure.

About the Rated Entity - Key Financials

For FY2016-17, EIPL reported net profit after tax (PAT) of Rs.25.85 crore on operating income of Rs.220.99 crore compared with PAT of Rs.11.97 crore on operating income of Rs.218.10 crore in FY2015-16. The tangible networth stood at Rs. 84.76 crore as on 31 March, 2017 as against Rs.58.76 crore in the previous year.

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	220.99	218.10	162.61
EBITDA	Rs. Cr.	51.19	38.64	25.11
PAT	Rs. Cr.	25.85	11.97	6.49
EBITDA Margin	(%)	23.16	17.72	15.44
PAT Margin	(%)	11.70	5.49	3.99
ROCE	(%)	27.43	24.10	16.95
Total Debt/Tangible Net Worth	Times	1.29	1.64	1.75
PBDIT/Interest	Times	4.91	2.45	2.43
Total Debt/PBDIT	Times	2.10	2.48	3.22
Gross Current Assets (Days)	Days	270	291	348

Applicable Criteria

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

Note on complexity levels of the rated instrument:

<https://www.smerra.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating History (Upto last three years):

Date	Name of the Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
29 June, 2017	Cash credit	Long term	31.00^	SMERA BBB/ Stable (Reaffirmed)
	Standby Line of Credit	Short term	2.00	SMERA A3+ (Reaffirmed)
	Cash credit	Long term	13.00*	SMERA BBB/ Stable (Reaffirmed)
	Cash credit	Long term	41.00^^	SMERA BBB/ Stable (Reaffirmed)
	Term Loan	Long term	12.00	SMERA BBB/ Stable (Reaffirmed)
	Bank Guarantee	Short term	7.00**	SMERA A3+ (Reaffirmed)
	Bank Guarantee	Short term	28.00	SMERA A3+ (Reaffirmed)
	Letter of Credit	Short term	6.00	SMERA A3+ (Reaffirmed)
	Letter of Credit	Short term	4.00#	SMERA A3+ (Reaffirmed)
	Bank Guarantee	Short term	13.00#	SMERA A3+ (Reaffirmed)
18 March, 2016	Cash credit	Long term	31.00^	SMERA BBB/Stable (Assigned)
	Standby Line of Credit	Short term	2.00	SMERA A3+ (Assigned)
	Cash credit	Long term	13.00*	SMERA BBB/Stable (Assigned)
	Cash credit	Long term	41.00^^	SMERA BBB/Stable (Assigned)
	Term Loan	Long term	12.00	SMERA BBB/Stable (Assigned)
	Bank Guarantee	Short term	7.00**	SMERA A3+ (Assigned)
	Bank Guarantee	Short term	28.00	SMERA A3+ (Assigned)
	Letter of Credit	Short term	6.00	SMERA A3+ (Assigned)
	Letter of Credit	Short term	4.00#	SMERA A3+ (Assigned)
	Bank Guarantee	Short term	13.00#	SMERA A3+ (Assigned)

*Includes sublimit of PCFC/Rupee Export Packing Credit to the tune of Rs.12.00 cr and Export Foreign Bill Purchase/Post Shipment in Foreign Currency to the tune of Rs. 12.00cr

**Includes sublimit of Foreign Bank Guarantee of Rs.5.50 cr, Letter of credit (import/local) of Rs.7.00 cr and Buyers Credit of Rs.7.00cr

^Includes sublimit of EPC/PCFC and FBD/EBR upto Rs. 25.00cr

^^ Includes sublimit of Packing Credit/Post Shipment to CC upto Rs. 30.00 cr.

#Full interchangeability between LC and BG and interexchangeability upto Rs.6.25 cr with CC

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

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash credit	N.A.	N.A.	N.A.	43.00	SMERA BBB/Positive (Reaffirmed)
Standby Line of Credit	N.A.	N.A.	N.A.	2.00	SMERA A3+ (Reaffirmed)
Cash credit	N.A.	N.A.	N.A.	13.00	SMERA BBB/Positive (Reaffirmed)
Cash credit	N.A.	N.A.	N.A.	41.00	SMERA BBB/Positive (Reaffirmed)
Cash credit	N.A.	N.A.	N.A.	10.00	SMERA BBB/Positive (Assigned)
Term Loan	N.A.	N.A.	N.A.	0.19	SMERA BBB/Positive (Assigned)
Term Loan	N.A.	N.A.	N.A.	17.00	SMERA BBB/Positive (Assigned)
Term Loan	N.A.	N.A.	N.A.	56.31	SMERA BBB/Positive (Reaffirmed)
Bank Guarantee	N.A.	N.A.	N.A.	11.00	SMERA A3+ (Reaffirmed)
Bank Guarantee	N.A.	N.A.	N.A.	44.00	SMERA A3+ (Reaffirmed)
Letter of Credit	N.A.	N.A.	N.A.	6.00	SMERA A3+ (Reaffirmed)
Letter of Credit	N.A.	N.A.	N.A.	4.00	SMERA A3+ (Reaffirmed)
Bank Guarantee	N.A.	N.A.	N.A.	13.00	SMERA A3+ (Reaffirmed)

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ABOUT SMERA

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