

Press Release

Enpro Industries Private Limited

May 19, 2021



Rating Upgraded & Outlook revised

Total Bank Facilities Rated*	Rs. 285.50 crore*
Long Term Rating	ACUITE BBB+/ Outlook: Stable (Upgraded & Outlook revised to Stable)
Short Term Rating	ACUITE A2 (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB+**' (**read as ACUITE triple B plus**) from '**ACUITE BBB**' (**read as ACUITE triple B**) and the short-term rating to '**ACUITE A2**' (**read as ACUITE A two**) from '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs. 285.50 crore bank facilities of Enpro Industries Private Limited (EIPL). The outlook is revised from '**Positive**' to '**Stable**'.

Rationale for rating upgrade

The rating upgrade reflects healthy growth in operations and profitability for FY2021 based on provisional financials, healthy financial risk profile and adequate liquidity position. On the contrary, working capital operations of the company are intensive in nature. EIPL's scale of operations are continued to be at comfortable levels with total operating income of Rs. 187.49 crore in FY2020 as against Rs. 195.13 crore in FY2019, resulting in a marginal Y-o-Y decline of 3.92 per cent. Further, EIPL has registered ~40 per cent growth in FY2021, resulting in the operating income of Rs. 264.99 crore. Profitability of EIPL is also expected to improve for FY2021 on account of automation of process and newly added line of products. Profitability stood healthy with an operating margin of 24.36 per cent and net profit margin of 11.03 per cent in FY2020. The overall financial risk profile of EIPL is healthy owing to healthy net worth, leverage levels and debt-coverage indicators. The liquidity position of the company is healthy marked by healthy net cash accruals of Rs. 27.13 crores in FY2020 against maturing debt obligations of Rs. 11.46 crore during the same period. Liquidity is further supported by recovery of loan extended to its group concern, i.e. Enpro Industries- Saudi Arabia.

These rating strengths are partially set off by working capital intensive nature of operations marked by GCA of 446 days for FY2020 as against 312 days for FY2019, primarily on account of high year-end inventory levels due to covid-19 induced lockdown across the country.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of EIPL to arrive at this rating.

About the Company

Pune-based, EIPL was established as a partnership firm in the year 1988 and later reconstituted as a private limited company in 1999. The company is engaged in the designing and manufacturing of mechanical fluid systems such as lubes oil systems, filtration skids and fuel handling systems among other customized applications for power, petrochemical, chemical & fertilizers, refineries and process industries. Further, it has recently doubled its manufacturing capacity and added a new 'Process Equipment Division' to expand its presence across different product lines and industries. EIPL has its manufacturing facility in Markal, Pune and also has its presence abroad with regional offices in North America, Middle East, Europe, Japan and Korea to cater to the export markets.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

Incorporated in 1991, EIPL is promoted by Mr. Shrikrishna Karkare and Mrs. Alka Karkare, who have an experience of more than three decades in the aforementioned line of business. The extensive experience of promoters in the industry has helped the company in developing long-standing relationships with its customers and suppliers by the way of repetitive orders from them.

Furthermore, EIPL caters to a set of reputed clientele such as Mitsubishi Hitachi Power Systems India Private Limited in power sector, GE Oil & Gas India Private Limited in Oil & Gas industry and IFFCO Limited in Chemical & Fertilizers industry. In addition to this, the company recently expanded its customers' portfolio to industries such as food processing, pharmaceutical, agriculture and defence.

Acuité believes that EIPL will continue to benefit from the extensive experience of the promoters in the industry.

- **Healthy profitability**

Owing to technical expertise, niche business profile and reputed clients in its portfolio, the company is able to establish a healthy market position and has managed to maintain high profitability levels historically with an operating margin of 24.36 per cent and net profit margin of 11.03 per cent in FY2020. The profitability is expected to further improve in FY2021 on account of rationalization of costs, automation of process and newly added line of products with higher margins.

- **Completed status of capex and improved business prospects**

EIPL has doubled its manufacturing capacity at Markal to accommodate its new division – 'Special Equipment' in a bid to diversify into different product lines and industries. EIPL was undertaking capital expenditure for expansion of its manufacturing unit since FY2018, which was funded through internal accruals and term loan that was disbursed over a span of two years.

This expansion will benefit EIPL in reducing its concentration to specific sectors and hence diversifying the operations. It will also help in expanding its base in existing consumer industries. Targeted sectors through addition of its new "Process Equipment Division" are food, pharma, agriculture and defence, to name a few. EIPL has already started getting orders for its PED Division and has an unexecuted order book position of Rs. 26.29 crore. Further, it has a total unexecuted order book position of Rs. 543.39 crore which is 2.90 times of operating income for FY2020, thereby ensuring healthy revenue visibility.

- **Healthy financial risk profile**

The financial risk profile of the company is healthy marked by healthy net worth, gearing levels and debt protection metrics and coverage indicators.

The net worth of EIPL is healthy, estimated at around Rs. 152.84 crore as on March 31, 2020. The net worth levels have seen significant improvement over the last three years through FY2020 on account of healthy profitability.

EIPL has followed a conservative financial policy in the past and is continuing with the same policy as reflected through its gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.95 times and 1.45 times as on March 31, 2020. The leverage levels have marginally deteriorated though remained healthy on account of partial disbursement of term loans in FY2020. The total debt of Rs. 145.75 crore as on 31 March 2020 comprised of working capital borrowings of Rs. 88.20 crores, unsecured loans from promoters to the extent of Rs. 0.52 crore and long-term borrowings of Rs. 57.03 crores of which Rs. 11.46 crore are to be repaid within a year.

Healthy profitability has led to healthy debt coverage indicators of the EIPL marked by debt-service-coverage-ratio of 2.28 times as on 31st March, 2020 as against 2.60 times as on 31st March,

2019 and interest coverage ratio of 3.37 times as on 31st March, 2020 as against 3.98 times as on 31st March, 2019.

Acuité believes that the financial risk profile of EIPL will continue to further improve on account of healthy profitability resulting improved net worth and debt coverage indicators.

Weaknesses

• Working capital intensive nature of operations

EIPL has intensive working capital requirements as evident from gross current assets (GCA) of 446 days in FY2020 as compared to 312 days in FY2019. This deterioration is on account of increase in inventory days from 145 days in FY2019 to 247 days in FY2020. While the debtors' days have decreased marginally to 121 days in FY2020 as against 125 days in FY2019. The intensiveness of the working capital requirements is primarily due to inherent nature of engineering goods industry. This intensive requirement for working capital is however mitigated to an extent on account of healthy profitability leading to moderate reliance on working capital limits. The working capital limits are utilized at ~88.72 per cent during the eight months ended November, 2020. Further, the current ratio of EIPL stood at 1.36 times as on March 31, 2020. Acuité expects the working capital operations of the company to remain intensive on account of the level of inventory to be maintained and the credit given to its customers.

Rating Sensitivity

- Significant improvement in the scale of operations as a result of recently incurred capex.
- Substantial improvement in working capital management.
- Decline in profitability levels, thereby impacting company's debt coverage indicators.

Material Covenants

None

Liquidity: Adequate

The company has adequate liquidity profile marked by healthy net cash accruals to its maturing debt obligations. The company has generated cash accruals of Rs. 27.13 crore for FY2020, while its maturing debt obligations were Rs. 11.46 crore during the same period. EIPL's working capital operations are intensive marked by Gross Current Asset (GCA) of 446 days for FY2020. The fund-based working capital limits of the company remains utilised at ~63.10 per cent while the non-fund based limits are utilized to the extent of 52.12 per cent collectively. Liquidity is further supported by recovery of loan extended to its group company. The current ratio of the company stood at 1.36 times as on March 31, 2020. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against debt repayments over the medium term.

Outlook: Stable

Acuité believes that PHPL will maintain a 'Stable' outlook over the medium term on the back of promoters' extensive experience in the industry and healthy business risk profile. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	187.49	195.13
PAT	Rs. Cr.	20.68	23.08

PAT Margin	(%)	11.03	11.83
Total Debt/Tangible Net Worth	Times	0.95	0.88
PBDIT/Interest	Times	3.37	3.98

Status of non-cooperation with other CRA

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to previous three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10 th February 2021	Cash Credit	Long term	13.00	ACUITE BBB (Withdrawn)
	Cash Credit	Long term	41.00	ACUITE BBB/ Positive (Reaffirmed and outlook revised)
	Cash Credit	Long term	43.00	ACUITE BBB/ Positive (Reaffirmed and outlook revised)
	Cash Credit	Long term	23.00	ACUITE BBB/ Positive (Reaffirmed and outlook revised)
	Term Loan I	Long term	4.00	ACUITE BBB/ Positive (Reaffirmed and outlook revised)
	Term Loan II	Long term	3.96	ACUITE BBB/ Positive (Reaffirmed and outlook revised)
	Term Loan III	Long term	14.75	ACUITE BBB/ Positive (Reaffirmed and outlook revised)
	Term Loan IV	Long term	9.80	ACUITE BBB/ Positive (Reaffirmed and outlook revised)
	Term Loan V	Long term	14.73	ACUITE BBB/ Positive (Reaffirmed and outlook revised)
	Term Loan VI	Long term	3.00	ACUITE BBB/ Positive (Reaffirmed and outlook revised)

04 th October, 2019	Term Loan VII	Long term	2.37	ACUITE BBB/ Positive (Reaffirmed and outlook revised)
	Term Loan VIII	Long term	1.10	ACUITE BBB/ Positive (Reaffirmed and outlook revised)
	Term Loan	Long term	10.00	ACUITE BBB/ Positive (Reaffirmed and outlook revised)
	Proposed Long-term Bank Facility	Long term	2.79	ACUITE BBB/ Positive (Reaffirmed and outlook revised)
	Bank Guarantee	Short term	11.00	ACUITE A3+ (Withdrawn)
	Bank Guarantee	Short term	10.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short term	69.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short term	13.00	ACUITE A3+ (Reaffirmed)
	Stand-by Letter of Credit	Short term	10.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short term	6.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short term	4.00	ACUITE A3+ (Reaffirmed)
04 th October, 2019	Cash Credit I	Long Term	13.00	ACUITE BBB/ Stable (Reaffirmed & outlook revised)
	Cash Credit II	Long Term	41.00	ACUITE BBB/ Stable (Reaffirmed & outlook revised)
	Cash Credit III	Long Term	42.00	ACUITE BBB/ Stable (Reaffirmed & outlook revised)
	Cash Credit IV	Long Term	10.00	ACUITE BBB/ Stable (Reaffirmed & outlook revised)
	Term Loan I	Long Term	43.00	ACUITE BBB/ Stable (Reaffirmed & outlook revised)
	Term Loan II	Long Term	17.00	ACUITE BBB/ Stable (Reaffirmed & outlook revised)
	Bank Guarantee I	Short Term	11.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee II	Short Term	69.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee III	Short Term	13.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit I	Short Term	6.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit II	Short Term	4.00	ACUITE A3+ (Reaffirmed)

	Proposed Bank Facilities	Short Term	16.50	ACUITE A3+ (Reaffirmed)
30 th October, 2018	Cash Credit I	Long Term	13.00	ACUITE BBB/ Positive (Reaffirmed)
	Cash Credit II	Long Term	41.00	ACUITE BBB/ Positive (Reaffirmed)
	Cash Credit III	Long Term	43.00	ACUITE BBB/ Positive (Reaffirmed)
	Cash Credit IV	Long Term	10.00	ACUITE BBB/ Positive (Reaffirmed)
	Term Loan I	Long Term	16.30	ACUITE BBB/ Positive (Reaffirmed)
	Term Loan II	Long Term	5.54	ACUITE BBB/ Positive (Reaffirmed)
	Standby Line of Credit	Short Term	2.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee I	Short Term	11.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee II	Short Term	69.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee III	Short Term	13.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit I	Short Term	6.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit II	Short Term	4.00	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facilities	Short Term	51.66	ACUITE A3+ (Reaffirmed)
02 nd January, 2018	Cash Credit	Long term	43.00	ACUITE BBB/ Positive (Reaffirmed and outlook revised)
	Cash Credit	Long term	13.00	ACUITE BBB/ Positive (Reaffirmed and outlook revised)
	Cash Credit	Long term	41.00	ACUITE BBB/ Positive (Reaffirmed and outlook revised)
	Cash Credit	Long term	10.00	ACUITE BBB/ Positive (Assigned)
	Term Loan	Long term	0.19	ACUITE BBB/ Positive (Assigned)
	Term Loan	Long term	17.00	ACUITE BBB/ Positive (Assigned)
	Term Loan	Long term	56.31	ACUITE BBB/ Positive (Reaffirmed and outlook revised)
	Standby Line of Credit	Short term	2.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short term	11.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short term	44.00	ACUITE A3+ (Reaffirmed)

	Bank Guarantee	Short term	13.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short term	6.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short term	4.00	ACUITE A3+ (Reaffirmed)
29 th June, 2017	Cash Credit	Long term	31.00	ACUITE BBB/ Stable (Reaffirmed)
	Cash Credit	Long term	13.00	ACUITE BBB/ Stable (Reaffirmed)
	Cash Credit	Long term	41.00	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long term	12.00	ACUITE BBB/ Stable (Reaffirmed)
	Standby Line of Credit	Short term	2.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short term	7.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short term	28.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short term	13.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short term	6.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short term	4.00	ACUITE A3+ (Reaffirmed)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	41.00	ACUITE BBB+/ Stable (Upgraded and outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	43.00	ACUITE BBB+/ Stable (Upgraded and outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE BBB+/ Stable (Upgraded and outlook revised)
Term Loan I	Not Available	Not Available	Not Available	4.00	ACUITE BBB+/ Stable (Upgraded and outlook revised)
Term Loan II	Not Available	Not Available	Not Available	3.96	ACUITE BBB+/ Stable (Upgraded and outlook revised)
Term Loan III	Not Available	Not Available	Not Available	14.75	ACUITE BBB+/ Stable (Upgraded and outlook revised)
Term Loan IV	Not Available	Not Available	Not Available	9.80	ACUITE BBB+/ Stable (Upgraded and outlook revised)

Term Loan V	Not Available	Not Available	Not Available	14.73	ACUITE BBB+/ Stable (Upgraded and outlook revised)
Term Loan VI	Not Available	Not Available	Not Available	3.00	ACUITE BBB+/ Stable (Upgraded and outlook revised)
Term Loan VII	Not Available	Not Available	Not Available	2.37	ACUITE BBB+/ Stable (Upgraded and outlook revised)
Term Loan VIII	Not Available	Not Available	Not Available	1.10	ACUITE BBB+/ Stable (Upgraded and outlook revised)
Term Loan	Not Available	Not Available	Not Available	10.00	ACUITE BBB+/ Stable (Upgraded and outlook revised)
Proposed Long-term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.79	ACUITE BBB+/ Stable (Upgraded and outlook revised)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2 (Upgraded from ACUITE A3+)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	69.00	ACUITE A2 (Upgraded from ACUITE A3+)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE A2 (Upgraded from ACUITE A3+)
Stand-by Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2 (Upgraded from ACUITE A3+)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A2 (Upgraded from ACUITE A3+)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A2 (Upgraded from ACUITE A3+)

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