

Press Release

Envy Cylinders Private Limited (ECPL)

10 January, 2018



Rating Upgraded

| | |
|------------------------------------|-----------------------------|
| Total Bank Facility Rated * | Rs.6.00 Crore |
| Long Term Rating | SMERA BB-/Stable (Upgraded) |
| Short Term Rating | SMERA A4+(Upgraded) |

*Refer Annexure for details

Rating Rationale

SMERA has upgraded the long term rating on the Rs 6.00 crore bank facilities of Envy Cylinders Private Limited to '**SMERA BB-**' (read as SMERA double B minus) from '**SMERA B+** (read as SMERA B plus) and short term rating to '**SMERA A4+** (read as SMERA A four plus) from **SMERA A4** (read as SMERA A four. The outlook is '**Stable**'.

ECPL a Hyderabad based company was incorporated in the year 1998 by Mr Alpa Khara. Currently the business is managed by Mr. Nalin Khara and Mrs. Neela Khara. It is involved in manufacturing of LPG cylinders. It supplies these cylinders to companies like IOCL, HPCL and BPCL. It has an installed capacity of 45000-46000 cylinders per month.

The upgrade is in view of the stable business risk profile maintained by the company along with consistent improvement in profitability margins and debt protection metrics. SMERA believes that ECPL, in the medium term, will maintain profitability margins along with further improvement in its financial risk profile.

List of key rating drivers and their detailed

description Strengths:

Experienced management and long track of operations

ECPL was incorporated in 1998 by Mr Alpa Khara who has nearly two decades of experience in the manufacturing of cylinders. Currently, the business is led by Mr. Nalin Khara and Mrs. Neela Khara.

Established relationship with customers

The company has been able to forge long standing relations with some of the big oil and gas companies in India like Hindustan Petroleum Corporation Limited (HPCL), Indian Oil Corporation Limited (IOCL) and Bharat Petroleum Corporation Limited (BPCL) since last two decades which lends support to its stable business risk profile. EPCL has an annual contract to supply cylinders to these companies which gets renewed every-year.

Improvement in profitability margins

The operating margins of EPCL registered consistent improvement in the last three years. The company registered 4.04 per cent in FY2017 from 2.89 per cent in FY2015 on account of lower manufacturing and selling expenses. The net margins also improved in line with operating margins. The company registered 1.25 per cent in FY2017 from 0.13 per cent in FY2015.

Prudent working capital cycle

The company maintains prudent working capital cycle marked by GCA days of 88 in FY2017 as against 85 days in FY2016. During the period under review (FY2015-17) the company maintained debtors of 30-40 and inventory of 10 days. On an average the company utilises ~ 50 per cent of its fund based limit.

Weaknesses:

Modest scale of operations

The company has been operating at moderate scale with revenue of Rs 36.79 crore in FY2017 as against Rs 37.63 crore in FY2016. During the current year, ECPL booked revenue of Rs 26.50 crore till Nov'17.

Moderate financial risk profile

The moderate financial risk profile is marked by improved low net worth, high gearing and comfortable debt protection metrics. The net-worth stood at a low of Rs 1.73 crore in FY2017 compared to Rs 1.27 crore in FY2016. The total debt of Rs.3.19 crore in FY2017 consists of short term working capital facilities of Rs. 1.35 crore, Rs. 1.53 crore of interest free unsecured loans from directors and bodies corporates and Rs 0.21 crore of vehicle loans. The gearing stood at 1.84 times in FY2017 as against 2.13 times in FY2016. The Interest Coverage Ratio (ICR) improved to a comfortable 3.69 times for FY2017 as against 3.19 times in FY2016. The DSCR stood at 3.23 times in FY2017 as against 3.13 times in FY2016.

Limited pricing flexibility on account of the tender based business

ECPL sells LPG cylinders to companies such as HPCL, BCPL and IOCL. The business is tender based which restricts pricing flexibility of the sellers.

Analytical approach-For arriving at the ratings, SMERA has considered the standalone financial performance and financial risk profile of ECPL.

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>

Outlook - Stable

SMERA believes that ECPL will maintain a Stable outlook over the medium term owing to its extensive experience in the cylinder manufacturing business and established association with oil and gas companies in India. The outlook may be revised to 'Positive' if ECPL registers more than envisaged sales and profitability while achieving an improvement in its financial risk profile. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve its expected growth in revenue and profitability or if the financial risk profile further deteriorates owing to more than envisaged working capital requirements.

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 36.79 | 37.63 | 37.45 |
| EBITDA | Rs. Cr. | 1.49 | 1.36 | 1.08 |
| PAT | Rs. Cr. | 0.46 | 0.06 | 0.05 |
| EBITDA Margin | (%) | 4.04 | 3.62 | 2.89 |
| PAT Margin | (%) | 1.25 | 0.15 | 0.13 |
| ROCE | (%) | 25.78 | 16.66 | 23.31 |
| Total Debt/Tangible Net Worth | Times | 1.84 | 2.13 | 1.21 |
| PBDIT/Interest | Times | 3.69 | 3.19 | 1.72 |
| Total Debt/PBDIT | Times | 1.96 | 1.76 | 1.31 |
| Gross Current Assets (Days) | Days | 88 | 85 | 56 |

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for the last three years:

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Crore) | Ratings/Outlook |
|---------------|---------------------------------|------------|--------------------|----------------------------|
| 26 Sept, 2017 | Cash Credit | Long Term | 1.00 | SMERA B+ (Indicative) |
| | Letter of Credit | Short Term | 4.00 | SMERA A4 (Indicative) |
| | Bank Guarantee | Short Term | 0.50 | SMERA A4 (Indicative) |
| | Proposed Bank Guarantee | Short Term | 0.50 | SMERA A4 (Indicative) |
| 30 June, 2016 | Cash Credit | Long Term | 1.00 | SMERA B+/Stable (Assigned) |
| | Letter of Credit | Short Term | 4.00 | SMERA A4 (Assigned) |
| | Bank Guarantee | Short Term | 0.50 | SMERA A4 (Assigned) |
| | Proposed Bank Guarantee | Short Term | 0.50 | SMERA A4 (Assigned) |

***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 | NA | NA | NA | 1.00 | SMERA BB-/Stable (Upgraded) |
| Letter of Credit | NA | NA | NA | 4.00 | SMERA A4+ (Upgraded) |
| Bank Guarantee | NA | NA | NA | 0.50 | SMERA A4+ (Upgraded) |
| Proposed Bank Guarantee | NA | NA | NA | 0.50 | SMERA A4+ (Upgraded) |

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

Contacts:

| Analytical | Rating Desk |
|---|--|
| Vinayak Nayak, Head -Operations, SMERA Bond Ratings Tel: 022-67141190 Email: vinayak.nayak@smera.in | Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in |
| Aniruddha Dhar Rating Analyst, Tel:033-66201212 Email: aniruddha.dhar@smera.in | |

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.

