

Press Release

Envy Cylinders Private Limited

February 22, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 6.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

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

The reaffirmation of the rating reflects established track record, as well as the extensive experience of its promoters and management team. Further, the ratings continue to reflect sustenance of the revenue growth in line with the estimates backed by diversified client profile. ECPL reported a revenue of Rs.42.31 crore for FY2018; a growth of about 15 percent over FY2017. However, the ratings are constrained by moderate scale of operations, working capital intensive operations and susceptibility of margins to volatility in raw material prices.

ECPL was incorporated in 1988 by Mr. Alpa Khara and his family members. Currently, the business is managed by Mr. Nalin Khara and Mrs. Neela Khara. ECPL manufactures LPG cylinders at its facility in Hyderabad with manufacturing capacity of 45,000 cylinders per annum. The company undertakes contracts from Hindustan Petroleum Corporation Ltd (HPCL), Bharat Petroleum Corporation Ltd (BPCL), and Indian Oil Corporation Ltd (IOCL) on annual basis.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of ECPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Extensive industry experience of the promoters**

ECPL was incorporated in 1998 by Mr. Alpa Khara who has nearly two decades of experience in manufacturing of cylinders. Currently, the business is led by Mr. Nalin Khara and Mrs. Neela Khara. Over the years, they have developed healthy relationships with various suppliers, and are actively involved in the business. ECPL customer base includes reputed names such as Hindustan Petroleum Corporation Ltd (HPCL), Bharat Petroleum Corporation Ltd (BPCL), and Indian Oil Corporation Ltd (IOCL), among others. ECPL recorded revenues of Rs.42.31 crore with a moderate growth of about 15 percent over FY2017, and a compound annual growth rate of 6 percent over the last three fiscals. Acuite believes that promoters' entrepreneurial experience and experienced team are expected to aid in improving its business risk profile over the medium term.

- **Efficient working capital management**

ECPL's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 85 days historically, due to prudent inventory management, and efficient collection of trade receivables supported by reputed clientele. The company extends credit of about two months to its clientele. This results in low reliance on bank lines at about 54 percent over six months through December 2018. Acuite believes that ECPL's operations will continue to be efficiently managed supported by efficient collection mechanism and in time inventory levels.

• Moderate financial risk profile

The financial risk profile is marked by moderate capital structure and strong debt protection metrics. The net worth is moderate at Rs.2.67 crore in FY2018 as against Rs.1.73 crore in FY2017; an increase due to accretion to reserves. As a result, the gearing (debt-equity) has improved to 1.25 times as on March 31, 2018 from 1.84 times as on March, 2017. Further, its TOL/TNW improved to 4.81 times in FY2018 from 6.67 times in FY2017. ECPL's debt protection metrics are strong reflected by moderate net cash accruals to total debt (NCA/TD) and interest coverage ratio (ICR) of 0.44 times and 7.04 times in FY2018 vis-à-vis 0.59 times and 5.26 times in FY2017, respectively. The company's cash accruals are expected in the range of Rs.1.00-1.50 crore against minuscule repayment obligations over the medium term which gives adequate cushion for the incremental working capital requirements and liquidity.

Weaknesses

• Moderate scale of operations

Scale of operations is moderate as reflected in revenue of around Rs.42.31 crore in FY2018 and the company is also exposed to intense competition in the industry. The revenues are expected to be around Rs.45-60 crore over the medium term. Further, the industry is intensely competitive on account of fragmented nature with presence of a large number of players. Also, tender nature of business constrains the business risk profile.

• Exposure to risks inherent in tender-based businesses and customer concentration in revenue

IOCL, BPCL, and HPCL, account for almost 90 percent of revenue. The company gets orders through tenders and operates in a highly fragmented industry, which limits bargaining power and impacts the profitability. Furthermore, the commodity nature of its product results in vulnerability to volatility in raw material prices. Furthermore, with cost of raw material accounting for 75 percent on its operating income, the fluctuation in raw material cost impacted the operating margin in FY2018. The margin has ranged from 3.31 to 5.09 percent past three years.

Liquidity Position:

ECPL has moderate liquidity marked by moderate net cash accruals and efficient bank limit utilisations. ECPL's working capital operations are relatively efficient as marked by Gross Current Assets (GCA) of 82 days in FY 2018. This has led to low reliance on working capital borrowings. The average bank limit utilisation was around 54 percent (of the sanctioned Rs.1.00 crore) during the 6 months through December 2018. The company's cash accruals are expected in the range of Rs.1.00-1.50 crore against minimal repayment obligations which gives adequate cushion for the incremental working capital requirements and the liquidity. The current ratio stood at 0.97 times as on March 31, 2018 depleted from 1.07 times in FY2017.

Outlook: Stable

Acuite believes that ECPL will maintain a 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations or any significant debt-funded capex or withdrawal of unsecured loans leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	42.31	36.79	37.63
EBITDA	Rs. Cr.	2.15	2.18	1.25
PAT	Rs. Cr.	0.94	1.35	-0.03
EBITDA Margin	(%)	5.09	5.92	3.31
PAT Margin	(%)	2.22	3.67	-0.08
ROCE	(%)	31.94	41.99	13.24
Total Debt/Tangible Net Worth	Times	1.25	1.84	2.13
PBDIT/Interest	Times	7.04	5.26	2.95
Total Debt/PBDIT	Times	1.50	1.38	1.91
Gross Current Assets (Days)	Days	82	88	85

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-Jan-2018	Cash Credit	Long Term	1.00	ACUITE BB- / Stable (Upgraded)
	Letter of Credit	Short Term	4.00	ACUITE A4+ (Upgraded)
	Bank Guarantee	Short Term	0.50	ACUITE A4+ (Upgraded)
	Proposed Bank Guarantee	Short Term	0.50	ACUITE A4+ (Upgraded)
26-Sep-2017	Cash Credit	Long Term	1.00	ACUITE B+ / Stable (Reaffirmed)
	Letter of Credit	Short Term	4.00	ACUITE A4 (Reaffirmed)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Reaffirmed)
	Proposed Bank Guarantee	Short Term	0.50	ACUITE A4 (Reaffirmed)
30-Jun-2016	Cash Credit	Long Term	1.00	ACUITE B+ / Stable (Assigned)
	Letter of Credit	Short Term	4.00	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Assigned)
	Proposed Bank Guarantee	Short Term	0.50	ACUITE A4 (Assigned)

***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	1.00	ACUITE BB-/Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4+ (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+ (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+ (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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