

Press Release
Industrial Boilers Limited

November 25, 2020



Rating Reaffirmed

| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs.12.00 Cr. |
| Long Term Rating | ACUITE BBB- / Outlook: Stable (Reaffirmed) |
| Short Term Rating | ACUITE A3 (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.12.00 crore bank facilities of Industrial Boilers Limited (IBL). The outlook is '**Stable**'.

IBL, incorporated in 1997, is engaged in the manufacture of industrial boilers of capacities ranging from 6TPH to 50TPH at Vapi Industrial Township. The company is headed by Mrs. Homai Engineer (Chairperson and Managing Director), Mr. Rohinton R Engineer and Mr. Cyrus R Engineer.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established presence in boiler industry

The promoter, Mrs. Homai R Engineer has an extensive experience in the boiler segment for more than four decades. She is equally supported by second generation management comprising of Mr. Rohinton R Engineer and Mr. Cyrus R Engineer, who have experience of more than two decades in the industry. The extensive experience of the promoters and the established presence in the industry has helped the company to generate healthy relations with various customers and suppliers in both domestic as well as global market. The company has pan India presence and has a global customer base spread across Nairobi, Thailand, Bangladesh, Myanmar, among others.

Acuité believes that IBL will continue to benefit from the management's established presence in the industry and its improving business risk profile over the medium term.

• Healthy financial risk profile

IBL has healthy financial risk profile marked by moderate net worth, healthy gearing and debt protection matrices. The net worth stood at around Rs.28.41 crore as on 31 March 2020 (Provisional) as against Rs.26.06 crore as on 31 March 2019. The gearing of IBL stood healthy at 0.40 times as on 31 March 2020 (Provisional) as compared to 0.48 times as on 31 March 2019. The total debt of Rs.11.30 crore as on 31 March 2020 (Provisional) mainly consists of a term loan of Rs.3.72 crore, unsecured loans of Rs.1.40 crore and working capital borrowings of Rs.6.19 crore. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.64 times as on 31 March, 2020 (Provisional) as against 1.75 times as on 31 March, 2019. Interest Coverage Ratio (ICR) deteriorated although stood healthy at 5.57 times in FY2020 (Provisional) as compared to 8.41 times in FY2019.

Acuité believes that the company will maintain its financial risk profile over near to medium term in the absence of any major debt funded capex plans.

Weaknesses

- **Working capital intensive nature of operations**

IBL's operations are working capital intensive marked by Gross Current Asset (GCA) of 158 days in FY2020 (Provisional) compared to 125 days in FY2019. The GCA days are mainly dominated by high inventory of 98 days for FY2020 (Provisional) as against 75 days for FY2019. The inventory as on 31 March, 2020 (Provisional) mainly consists of work in progress on account higher production cycle of boilers. The debtors stood in the range of 40- 60 days.

Acuité believes that efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

- **Uneven revenue and profitability trend**

The company witnessed a decline in its revenues and profitability margins in FY2020 (Provisional). The revenues declined to Rs.76.70 crore in FY2020 (Provisional) from Rs.94.31 crore in FY2019 mainly due to lesser demand from the end user industry. The operating margins declined to 4.86 percent in FY2020 (Provisional) from 6.62 percent in FY2019 mainly due to the inability of the company to pass on the additional cost to its customers. The operations are expected to be impacted in FY2021 mainly on account of Covid-19 pandemic.

Acuité believes that the ability of the company to sustain and improve its scale of operations along with profitability will be a key rating sensitivity.

- **Exposure to volatility in raw material prices and foreign exchange**

Around 20 percent of IBL's revenues come from exports while the company procures the raw materials domestically, thereby rendering it to the risk associated with foreign exchange fluctuations for the unhedged portion of exports. IBL is also exposed to volatility in the steel prices as it contributes to around 50 percent of total raw material cost.

Liquidity position: Adequate

IBL has adequate liquidity position marked by healthy cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.3.5-6.5 crore during the last three years through 2018-20, while its maturing debt obligations were in the range of Rs.0.40-0.60 crore over the same period. The operations are working capital intensive marked by Gross Current Asset (GCA) of 158 days in FY2020 (Provisional) compared to 125 days in FY2019. The average working capital limits utilisation stood at ~70 percent for the past six months ended October 2020. The current ratio stood moderate at 1.26 times as on 31 March, 2020 (Provisional).

Rating Sensitivities

- Improvement in the revenues and profitability margins
- Any deterioration in the working capital cycle

Material Covenants

None

Outlook: Stable

Acuité believes that IBL will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenues, profit margins, or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

| | Unit | FY20 (Provisional) | FY19 (Actual) |
|-------------------------------|---------|--------------------|---------------|
| Operating Income | Rs. Cr. | 76.70 | 94.31 |
| PAT | Rs. Cr. | 2.35 | 4.78 |
| PAT Margin | (%) | 3.07 | 5.07 |
| Total Debt/Tangible Net Worth | Times | 0.40 | 0.48 |
| PBDIT/Interest | Times | 5.57 | 8.41 |

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|-----------|---------------------------------|------------|-----------------|-------------------------------|
| 21-May-19 | Cash Credit | Long term | 7.50 | ACUITE BBB-/Stable (Upgraded) |
| | Bank guarantee | Short Term | 2.50 | ACUITE A3 (Upgraded) |
| | Letter of Credit | Short Term | 2.00 | ACUITE A3 (Upgraded) |
| 08-Mar-18 | Cash Credit | Long term | 7.50 | ACUITE BB+/Stable (Upgraded) |
| | Bank guarantee | Short Term | 2.50 | ACUITE A4+ (Reaffirmed) |
| | Letter of Credit | Short Term | 2.00 | ACUITE A4+ (Reaffirmed) |
| 26-Oct-17 | Cash Credit | Long term | 7.50 | ACUITE BB (Indicative) |
| | Bank guarantee | Short Term | 2.50 | ACUITE A4+ (Indicative) |
| | Letter of Credit | Short Term | 2.00 | ACUITE A4+ (Indicative) |

***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 | Not Applicable | Not Applicable | Not Applicable | 7.50 | ACUITE BBB-/Stable (Reaffirmed) |
| Bank guarantee | Not Applicable | Not Applicable | Not Applicable | 2.50 | ACUITE A3 (Reaffirmed) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE A3 (Reaffirmed) |

Contacts

| Analytical | Rating Desk |
|--|--|
| Aditya Gupta Vice President- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in | Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in |
| Avadhoot Mane Senior Analyst - Rating Operations Tel: 022-49294051 avadhoot.mane@acuite.in | |

About Acuité Ratings & Research:

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