

Press Release

Aerotherm Products

April 27, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 9.70 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (**read as SMERA B plus**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs. 9.70 crore bank facilities of Aerotherm Products. The outlook is '**Stable**'.

Aerotherm Products (AP) established in 1986 by Mr. Ashutosh Shukla is engaged in the designing and manufacturing of heat and air transfer equipments primarily used in refineries, fertiliser plants, chemical process plants among others.

Key Rating Drivers

Strengths

- **Established track record of operations**

Aerotherm Products was established in 1986. The promoter, Mr. Ashutosh Shukla has more than three decades of experience in the manufacturing of heavy engineering goods.

- **Reputed customer base**

The firm manufactures equipments used in process industries and has established long term business relations with customers over a period of over two decades. Some of the major customers include oil refinery companies such as Indian Oil Corporation (IOC), Oil and Natural Gas Corporation (ONGC), Bharat Petroleum Corporation Limited (BPCL) to name a few.

- **Healthy profitability**

AP has healthy profitability marked by operating margin of 14.58 percent and PAT (Profit after tax) margin of 4.12 percent in FY2016 as against operating margin of 19.58 percent and PAT margin of 5.39 percent in FY2015. However, the operating margins remain susceptible to volatility associated with raw material prices and the tender based nature of business.

Weaknesses

- **Modest scale of operations**

AP has modest scale of operations marked by operating income of Rs.11.56 cr for FY2016 as against Rs.8.38 cr in FY2015 and Rs.12.57 cr in FY2014. Further, from April 2016 to February 2017, the firm registered operating income of Rs.9.00 cr. Currently, the firm has orders worth Rs.2.40 cr.

- **Average financial risk profile**

The financial risk profile is average marked by moderate gearing and coverage indicators. The gearing (Debt-to equity) stood at 1.58 times as on 31 March, 2016 as against 1.37 times as on 31 March, 2015. The total debt mainly comprises working capital borrowings. The ICR (Interest Coverage Ratio) stood at 1.52 times for FY2016 as against 1.47 times for FY2015. The tangible net

worth stood at Rs 5.04 cr as on 31 March, 2016. (Tangible net worth includes Rs.1.88 cr subordinated to debt as quasi equity)

• Working capital intensive operations

The operations are working capital intensive marked by GCA (Gross current assets) of 396 days in FY2016 as against 316 for FY2015 on account of 223 days of inventory and 179 days of debtors for FY2016. The working capital cycle days stood at 241 days for FY2016 as against 213 days for FY2015. The average utilisation of working capital borrowings stood at ~80.00 percent for the last six months from September 2016 to February 2017.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of AP.

Outlook: Stable

SMERA believes that AP will maintain a stable outlook and continue to benefit over the medium term from its experienced management and established business relationship with customers and suppliers. The outlook may be revised to 'Positive' if the scale of operations increases with efficient management of working capital. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile or further stretch in the working capital.

About the Rated Entity - Key Financials

For FY2015-16, the firm reported net profit of Rs.0.48 cr on operating income of Rs.11.56 cr, as compared with net profit of Rs.0.45 cr on operating income of Rs.8.38 cr in FY2014-15. The net worth stood at Rs.5.04 cr as on March 31, 2016 as against Rs.4.42 cr a year earlier. (Networth comprises subordinated quasi equity of Rs.1.88 cr for FY2016 and Rs.1.36 cr for FY2015)

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***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	6.00	SMERA B+ / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A4
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.70	SMERA A4

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