

Press Release

Enginemates Heat Transfer Private Limited

May 07, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.35.00 Cr.
Long Term Rating	ACUITE BB+/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB+**' (read as **ACUITE Double B plus**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.35.00 Cr bank facilities of Enginemates Heat Transfer Private Limited (EHTPL). The outlook is '**Stable**'.

The rating takes into account the extensive experience of promoters, long track record of operations and the moderate financial risk profile of EHTPL. These strengths are partially offset by its modest scale of operations, client concentration risk and working capital intensive nature of operations. Going forward improvement in the scale of operations without any deterioration in the profitability and reduction in the customer concentration risk and elongation in working capital cycle will be a key monitorable.

About the Company

Incorporated in 1983, EHTPL is a Mumbai based company founded by Mr. K.A. Menon. It is currently managed by Mr. Mahesh Menon and Mr. Manoj Menon along with other family members. EHTPL is engaged in manufacturing of heat exchangers namely air cooled coolers and radiators for the oil and gas industry, construction and engineering industry and diesel generator sets and has three manufacturing facilities, two in Mumbai and one in Dharwad, Karnataka.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of EHTPL for arriving at this rating.

Key Rating Drivers

Strengths

• Extensive experience of the promoters and long track record of operations

Incorporated in 1983 by Mr. K.A. Menon, EHTPL is currently managed by Mr. Mahesh Menon and Mr. Manoj Menon along with other family members. The promoters have an industry experience of more than twenty-five years. Over its vintage, EHTPL has forged long standing relationships with its customers and suppliers. It has been associated with Cummins India Limited and Kirloskar Pneumatic Company Limited for more than two decades.

Acuite believes that EHTPL will continue to benefit from the extensive experience of its promoters and its long track record of operations.

• Moderate financial risk profile

EHTPL has a moderate financial risk profile marked by moderate debt protection metrics and modest net worth.

The net worth of the Company stood at Rs.28.69 Cr as on March 31, 2020 as against Rs.27.32 Cr as on March 31, 2019. The overall gearing of the Company stood at 0.53 times as on March 31, 2020 as against 0.64 times as on March 31, 2019. The total debt included long term borrowings of Rs.3.13 Cr, short term borrowings of Rs. 10.89 Cr and unsecured loan from directors of Rs.1.20 Cr as on March 31, 2020. The gearing is expected to range between 0.65-0.70 times as on March 31, 2021. The Interest coverage ratio and DSCR stood at 2.62 times and 1.78 times respectively as on March 31, 2020 as against 3.40 times and 2.56 times respectively as on March 31, 2019. The same is expected be around 2.20-2.25 times and 1.50 –1.60 times respectively as on

March 31, 2021.

Acuité expects EHTPL's financial risk profile to remain stable over the medium term.

Weaknesses

• Customer concentration risk and moderate scale of operations

EHTPL's revenue stood at Rs. 54.90 Cr in FY2020 as against Rs. 83.04 Cr in FY2019 and Rs. 52.52 Cr in FY2018. The Company has generated revenue of Rs. 50.19 Cr in FY2021 (provisional). The top five customers constitute more than 70 percent of the total revenue, with sales to Cummins India Limited comprising around 30-50 percent. This restricts EHTPL's pricing power and limits its profitability. However, the long standing relation with its largest customer reduces counter party risk to some extent. EHTPL has been associated with Cummins India Limited for around twenty-five years.

Acuité believes EHTPL's ability to improve its scale of operations and reduce its customer concentration risk will be a key monitorable.

• Working capital intensive nature of operations

EHTPL's operations are moderately working capital intensive in nature. The Gross Current Asset days stood at 165 days as on March 31, 2020 as against 133 days as on March 31, 2019. GCA days are driven by higher inventory and debtor days. The inventory days stood at 111 days as on March 31, 2020 as against 66 days as on March 31, 2019. The debtor days were standing at 45 days as on March 31, 2020 as against 65 days as on March 31, 2019. The creditor support stood at 144 days as on March 31, 2020 as against 120 days as on March 31, 2019. The GCA days are expected to increase to around 230-235 days as on March 31, 2021 driven by expected inventory days of around 130-135 days and debtor days of around 85-90 days as on March 31, 2021.

Acuité believes EHTPL's ability to maintain its working capital cycle without further elongation will remain a key rating sensitivity.

Liquidity Position: Stretched

EHTPL generated net cash accruals of Rs.3.15 Cr and Rs.4.40 Cr in FY2020 and FY2019 respectively while its debt obligation to pay during the same period stood at RS. 0.77 Cr and Rs. 0.34 Cr respectively. The cash accruals of the Company are expected to remain in the range of Rs. 2.65-3.45 Cr over the medium term, while its repayments are estimated to be in the range of Rs. 0.84-1.73 Cr for the same period. The Gross Current Asset (GCA) days were around 165 days estimated as on March 31, 2020 and the unencumbered cash and bank balance was Rs. 0.30 Cr as on March 31, 2020. The working capital intensive nature of operations make the Company dependent on bank borrowings. The average bank limit utilization of its fund based facility for the six months ended February, 2021 ranged between 95-99 percent. The current ratio was 1.30 times as on March 31, 2020. Acuité believes that the liquidity of the Company is likely to remain stretched over the medium term on account of moderate cash accruals against debt repayments and low unutilized bank limits.

Material Covenants

None

Rating Sensitivities

- Ability to improve its scale of operations and reduce its customer concentration risk
- Any elongation in EHTPL's working capital cycle

Rating Outlook: Stable

Acuité believes that EHTPL will maintain a stable outlook over medium term on account of extensive experience of its promoters, long track record of operations and moderate financial risk profile. The outlook may be revised to 'Positive' in case the Company achieves higher than expected improvement in its scale of operations while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' in case of slower than expected growth in scale of operations or any further elongation in its working capital cycle impacting its liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	54.90	83.04
PAT	Rs. Cr.	1.18	2.56
PAT Margin	(%)	2.16	3.08
Total Debt/Tangible Net Worth	Times	0.53	0.64
PBDIT/Interest	Times	2.62	3.40

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

Brickwork Ratings vide its press release dated January 08, 2021 had denoted the rating of Enginemat Heat Transfer Private Limited as 'BWR BB/Stable/A4; Downgraded, ISSUER NOT COOPERATING'.

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)

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	ACUITE BB+/Stable (Assigned)
Term Loan	November, 2020	13.65	October, 2024	1.50	ACUITE BB+/Stable (Assigned)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BB+/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A4+ (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Salony Goradia Sr. Analyst - Rating Operations Tel: 022-49294000	

salony.goradia@acuite.in	
--	--

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: *An Acuité 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. Acuité 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, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité 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. Acuité 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.acuite.in) for the latest information on any instrument rated by Acuité.*