Press Release

Enginemates Heat Transfer Private Limited

March 08, 2023

Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	11.00	ACUITE BBB- | Stable | Upgraded	-
Bank Loan Ratings	24.00	-	ACUITE A3 | Upgraded
Total Outstanding Quantum (Rs. Cr)	35.00	-	-

Rating Rationale

Acuité has upgraded its long-term rating to **'ACUITE BBB-' (read as ACUITE Triple B minus)** from **'ACUITE BB'** ; Downgraded and Issuer not Co-operating, **(read as ACUITE double B)**. Acuite has also upgraded the short-term rating to **'ACUITE A3' (read as ACUITE A three) from 'ACUITE A4+'** ; Issuer not Co-operating **(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'.**

Rationale for rating upgrade

The rating upgrade takes into account augmentation in business risk profile of the company reflected by improvement in scale of operations and healthy order book position from its reputed clientele. The rating also draws comfort from long and well established track record of operations managed by well experienced promoters and healthy financial risk profile of EHTPL. The rating is however constrained by the working capital intensive nature of operations, susceptibility of profits towards volatility in raw material prices and revenue growth linked towards capex plans of its clients. Acuité believes that the ability of the company to maintain its working capital cycle and restrict further elongation of receivable position will remain a key rating sensitivity.

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

Acuité 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, long track record of operations

Incorporated in 1983 by Mr. K.A. Menon, EHTPL is currently managed by the second generation of the family, Mr. Mahesh Menon and Mr. Manoj Menon. The promoters have an industry experience of more than twenty-five years. Over its vintage, EHTPL has forged long standing relationships with reputed clients and suppliers. It has been associated with Cummins India Limited and Kirloskar Pneumatic Company Limited for more than two decades. Further, EHTPL receives regular orders from companies like L & T Limited, Reliance Industries, Tata Projects Ltd, BPCL & HPCL to name a few.
Acuité believes that EHTPL will continue to benefit from the extensive experience of its promoters and long track record of its operations.

Improvement in scale of operations backed by regular orders from reputed clientele

The revenues of EHTPL has seen a growth of around 58 percent and the same stood at around Rs. 78.48 Cr. during FY2022 against Rs. 49.85 Cr. in FY2021. The significant increase in the scale of operations is attributable to additional orders received from Toyo Engineering India Pvt Ltd, L&T Limited and BPCL duirng the current year. Further, the company has been associated with Cummins India Ltd (CIL) for last 27 years, and exclusively manufactures radiators for CIL required for their engines on a monthly basis. CIL remained their largest contributor in revenues contributing around 40 percent to the total revenues during FY2022. Additionally, EHTPL has an outstanding order book close to around Rs. 220 Cr. out of which Rs. 62 Cr. alone is from IOCL. EHTPL has also received bigger value orders from Tata Projects Ltd, Gail India Ltd, Kirloskar Pneumatic Ltd. etc expected to be undertaken in the next two years. Thus, EHTPL shows a healthy revenue visibility in the near future backed by confirmed orders from its reputed clients.
Acuité believes that, going ahead the operations of EHTPL will continue to improve on account of healthy orders received from its reputed clientele

Healthy financial risk profile

The financial risk profile of the company stood healthy with healthy networth, low gearing and comfortable debt protection matrices. EHTPL's leverage policy has been conservative reflected in its peak gearing of 0.66 times as on March 31, 2022 as against 0.67 times as on March 31, 2021. The tangible net-worth stood at Rs. 31.71 Cr. as on March 31, 2022 against Rs. 30.13 Cr. as on March 31, 2021. The total debt of Rs. 20.92 Cr. as on March 31, 2022 includes a long term debt of Rs. 2.98 Cr. USL of Rs. 1.63 Cr. and fund based working capital limits of Rs. 16.31 Cr. Furthermore, the company has undertaken a capex for its manufacturing facility in Dharwad and borrowed an additional debt of around Rs. 5 Cr. during the current 9MFY23. Despite, additions to the debt, the overall gearing is still expected to remain below unity (0.72 times) as on March 31, 2023. Further, the Interest coverage ratio and DSCR stood healthy at 2.39 times and 1.66 times respectively as on March 31, 2022 as against 2.59 times and 1.73 times respectively as on March 31, 2021. Debt/EBITDA has improved and stood moderate at 2.68 times as on March 31, 2022 against 3.31 times as on March 31, 2021.
Acuité believes that the financial risk profile of the company is expected to remain healthy in absence of any major additional debt funded capex in near to medium term.

Weaknesses

Working capital intensive nature of operations

EHTPL's operations are working capital intensive in nature. Company is involved in the manufacturing of heat transfers and radiators, which are designed and made as per orders. The manufacturing and dispatch ranges anywhere between 9-12 months. This results in the stretched working capital cycle. The overall Gross Current Asset days stood at 195 days as on March 31, 2022 as against 251 days as on March 31, 2021. GCA days are driven by higher inventory and debtor days. The inventory days stood at 88 days as on March 31, 2022 as against 136 days as on March 31, 2021. The debtor days stood high at 104 days as on March 31, 2022 as against 110 days as on March 31, 2021. The longer manufacturing process, results in elongated collections from debtors. However, the company receives creditor support and the same stood at 127 days as on March 31, 2022 as against 212 days as on Mach 31, 2021 which has helped in maintaining moderate level of working capital utilisation. The limits stood

utilised at around 63% for last twelve months ended December-22.
Acuité believes EHTPL's ability to maintain its working capital cycle without further elongation will remain a key rating sensitivity.

Profitability susceptible to changes in raw material prices
EHTPL's major raw materials include Aluminium Strips / Sheets, Seamless Tubes, P H R Sheets/Plates/Angles etc. The company performance remains vulnerable to changes in the prices of aluminium and steel sector as demand for the same depends on the performance of the end user segments. The EBITDA margins stood at 8.71 percent in FY2022 against 10.57 percent in FY2021 and 9.06 percent in FY2020. The operating margin of the company is thus exposed to fluctuations in the prices of raw materials as well as realization from finished goods.

Revenue growth linked to capex plans of clients
EHTPL is involved into complex industrial machiney manufacturing and every final product is customised and manufactured basis client requirement and specification which is an additional cost for clients. Hence commissioning and executing new orders remains dependent on capital expenditure plans of its clients. However, with government impetus on environmental awareness, more participants are expected to undertake green projects thus reducing demand risk to some extent for EHTPL.

Rating Sensitivities

- Ability to maintain its working capital cycle and restrict further elongation of receivable position
- Ability to increase its scale of operations without deterioration in its profitability

Material covenants
None

Liquidity Position
Adequate
EHTPL generated net cash accruals of Rs.3.83 Cr in FY2022 while its debt obligations during the same period stood at Rs. 1.02 Cr. The cash accruals are expected to remain in the range of Rs. 4.31-4.94 Cr over FY23 & FY24, while its repayments are estimated to be in the range of Rs. 1.38-1.45 Cr for the same period. The Gross Current Asset (GCA) days were around 195 days as on March 31, 2022 and the unencumbered cash and bank balance was Rs. 0.15 Cr as on March 31, 2022. Although, operations are working capital intensive, EHTPL is able to receive extended credit period from its suppliers which makes it relatively less dependent on the working capital borrowings. The average bank limit utilization of its fund-based facility for the 12 months ended December 2022 stood at around 63%. Additionally, the company has investments in FD & RD to the tune of Rs 17 Cr. and investments in quoted equity shares and mutual funds at around Rs. 0.68 Cr. The current ratio was 1.31 times as on March 31, 2022.
Acuité believes that the liquidity of the Company is likely to remain adequate over the medium term on account of adequate cushion between cash accruals against debt repayments and moderately utilized bank limits.

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 healthy 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 increasing 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.

Other Factors affecting Rating
Not Applicable

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	78.48	49.85
PAT	Rs. Cr.	1.61	1.43
PAT Margin	(%)	2.05	2.86
Total Debt/Tangible Net Worth	Times	0.66	0.67
PBDIT/Interest	Times	2.39	2.59

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

Brickwork Ratings vide its press release dated March 11, 2022 had denoted the rating of Enginemates Heat Transfer Private Limited as 'BWR BB-/Stable/A4; Downgraded, ISSUER NOT COOPERATING'.

Any other information

Not Applicable

Applicable Criteria

• Default Recognition :- https://www.acuite.in/view-rating-criteria-52.htm
• Entities In Manufacturing Sector:- https://www.acuite.in/view-rating-criteria-59.htm
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized suchinstr uments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 Jul 2022	Letter of Credit	Short Term	4.00	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	6.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Working Capital Demand Loan	Long Term	3.50	ACUITE BB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	1.50	ACUITE BB (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	20.00	ACUITE A4+ (Issuer not co-operating*)
07 May 2021	Cash Credit	Long Term	6.00	ACUITE BB+ | Stable (Assigned)
	Term Loan	Long Term	1.50	ACUITE BB+ | Stable (Assigned)
	Working Capital Demand Loan	Long Term	3.50	ACUITE BB+ | Stable (Assigned)
	Bank Guarantee	Short Term	20.00	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	4.00	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A3 | Upgraded (from ACUITE A4+)
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE BBB- | Stable | Upgraded (from ACUITE BB)
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE A3 | Upgraded (from ACUITE A4+)
Canara Bank	Not Applicable	Term Loan	09 Nov 2020	Not available	22 Oct 2024	Simple	1.50	ACUITE BBB- | Stable | Upgraded (from ACUITE BB)
CITI Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	3.50	ACUITE BBB- | Stable | Upgraded (from ACUITE BB)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.