



Press Release
Enginemates Heat Transfer Private Limited May
08, 2024
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	9.50	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	11.00	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	36.50	-	ACUITE A3 Assigned
Bank Loan Ratings	24.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	81.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating to ‘**ACUITE BBB-**’ (read as **ACUITE Triple B minus**) and the short-term rating to ‘**ACUITE A3**’ (read as **ACUITE A three**) on the Rs. 35.00 Cr. bank facilities of Enginemates Heat Transfer Private Limited (EHTPL). Also, Acuite has assigned the long-term rating of ‘**ACUITE BBB-**’ (read as **ACUITE Triple B minus**) and short-term rating of ‘**ACUITE A3**’ (read as **ACUITE A three**) to the Rs. 46.00 Cr. bank facilities of Enginemates Heat Transfer Private Limited (EHTPL). The outlook is ‘**Stable**’.

Rationale for Rating

The rating takes into account the augmentation in the scale in FY2024 though it continues to remain moderate along with a moderate financial risk profile. The rating also draws comfort from long and well established track record of operations managed by well experienced promoters and reputed clientele. 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. Ability 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. It has three manufacturing facilities, two in Mumbai and one in Dharwad, Karnataka.

Unsupported Rating

Not applicable

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, 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 reputed clientele like Cummins India Limited, 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.

Augmentation in the scale albeit a modest scale

The company's operating income stood at Rs. 81.24 cr. in FY2023, marking a modest increase in revenues by 3.51% from the previous year at Rs. 78.48 in FY2022. In FY2024, the company reported growth of 35% in FY2024 with an operating income of Rs.110 Cr. Acuité believes that, going ahead the operations of EHTPL is expected to exhibit a healthy growth, however, the profitability would remain exposed to the volatility in the raw material prices.

Weaknesses

Working capital intensive nature of operations

EHTPL's operations are working capital intensive in nature. The company is involved in the manufacturing of heat transfers and radiators, which are designed and made as per orders. This results in the stretched working capital cycle with the Gross Current Asset (GCA) days of 201 days as of March 31, 2023, compared to 195 days as of March 31, 2022 due to decline in the creditor days. The inventory days stood at 89 days, which is relatively high because company as the company maintains raw material inventory of 2 months to serve the orders. Additionally, the company's debtor days stood at 101 in FY23 reflecting the stretched collection period in line with its delivery terms, particularly given its made-to-order production cycle with dispatch periods ranging from 9 to 12 months. EHTPL's ability to secure a credit period of 45-90 days from its suppliers helps manage its cash flow, providing some buffer against the longer debtor cycle. 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 declined to 6.38 percent in FY2023 against 8.71 percent in FY2022 mainly on account of an increase in the raw material price. The operating margin of the company is thus exposed to fluctuations in the prices of raw materials as well as realization from finished goods.

Moderate financial Risk Profile

The company's capital structure continues to remain comfortable with a gearing ratio of 0.67 times as of March 31, 2023 (0.66 times as of March 31, 2022). Due to the decline in the profitability, the coverage ratios of the company were impacted as reflected by the interest coverage ratio of to 2.03 times in FY2023 as against 2.39 times in FY2022 and debt service coverage ratio (DSCR) from 1.28 times during FY2023 as against 1.66 times as FY2022.

Rating Sensitivities

- Any decline in the scale or profitability leading to decline in or any further stretch in the working capital cycle and debt funded capex leading an impact on its liquidity position.
- Sustainable increase in its scale of operations while improving its profitability and key

credit ratios.

Liquidity Position

Adequate

The company's liquidity remains adequate as reflected by net cash accruals of Rs.2.70 Cr in FY2023 against a debt repayment of Rs.2.26. Cr. The company is expected to generate annual net cash accruals of Rs.3.99. Cr. to Rs.5.31Cr. in next three years against the debt repayment of Rs.0.16 Cr to Rs.1.02 Cr. per annum in next three years. The working capital limits remain almost fully utilised for the company.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	81.24	78.48
PAT	Rs. Cr.	0.71	1.61
PAT Margin	(%)	0.88	2.05
Total Debt/Tangible Net Worth	Times	0.67	0.66
PBDIT/Interest	Times	2.03	2.39

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

Not applicable

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>
- 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, Acuite has categorized such instruments 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
08 Mar 2023	Letter of Credit	Short Term	4.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Bank Guarantee (BLR)	Short Term	20.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	6.00	ACUITE BBB- Stable (Upgraded from ACUITE BB)
	Term Loan	Long Term	1.50	ACUITE BBB- Stable (Upgraded from ACUITE BB)
	Working Capital Demand Loan (WC DL)	Long Term	3.50	ACUITE BBB- Stable (Upgraded from ACUITE BB)
27 Jul 2022	Letter of Credit	Short Term	4.00	ACUITE A4+ (Reaffirmed & Issuer not co-operating*)
	Bank Guarantee (BLR)	Short Term	20.00	ACUITE A4+ (Reaffirmed & Issuer not co-operating*)
	Cash Credit	Long Term	6.00	ACUITE BB (Downgraded & Issuer not co-operating* from ACUITE BB+ Stable)
	Term Loan	Long Term	1.50	ACUITE BB (Downgraded & Issuer not co-operating* from ACUITE BB+ Stable)
	Working Capital Demand Loan (WC DL)	Long Term	3.50	ACUITE BB (Downgraded & Issuer not co-operating* from ACUITE BB+ Stable)
07 May 2021	Bank Guarantee (BLR)	Short Term	20.00	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	4.00	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	6.00	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	1.50	ACUITE BB+ Stable (Assigned)
	Working Capital Demand Loan (WC DL)	Long Term	3.50	ACUITE BB+ Stable (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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE A3 Reaffirmed
Canara Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	32.50	ACUITE A3 Assigned
Canara Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	6.00	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	4.00	ACUITE A3 Reaffirmed
Canara Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	4.00	ACUITE A3 Assigned
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.05	ACUITE BBB- Stable Assigned
Canara Bank	Not avl. / Not appl.	Term Loan	09 Nov 2020	Not avl. / Not appl.	22 Oct 2024	Simple	1.50	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	09 Nov 2020	Not avl. / Not appl.	22 Oct 2024	Simple	6.45	ACUITE BBB- Stable Assigned
CITI Bank	Not avl. / Not appl.	Working Capital Demand Loan (WCDL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.50	ACUITE BBB- Stable Reaffirmed
CITI Bank	Not avl. / Not appl.	Working Capital Demand Loan (WCDL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	3.00	ACUITE BBB- Stable Assigned

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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.

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