

Press Release

Ishan Equipments Private Limited

May 04, 2023

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	33.80	ACUITE B+ Stable Assigned	-
Bank Loan Ratings	51.20	-	ACUITE A4 Assigned
Total Outstanding Quantum (Rs. Cr)	85.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and the short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.85 Cr. bank facilities of Ishan Equipments Private Limited (IEPL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned takes into account improvement in IEPL's scale of operations in FY2022. The company generated revenues of Rs.107 Cr for FY2022 as against Rs.63 Cr in FY2021 which is a growth of ~70 percent and has achieved this improvement on account of successfully executing large number of various engineering and fabrication orders of Mounded storage vessels (MSV), Vapour recovery units (VRU), annual maintenance of VRUs and manufacturing and supply of mega storage tanks for its reputed clients like IOCL, HPCL, GACL, BPCL, GAIL amongst others during the year.

The rating is however constrained by IEPL's below average financial risk profile, highly working capital-intensive operations, decline in operating margin on a year-on-year basis and high execution risk of pending work orders. Going forward, ability of the company to improve its financial risk profile, timely execution of pending work orders, maintaining its scale of operations while improving the operating margin and to maintain an efficient working capital cycle will remain a key rating sensitivity factor.

About the Company

IEPL incorporated in 1996, is engaged in the business of manufacturing various process equipments such as tanks, vessels, heat exchangers, vapour recovery units, water treatment plants amongst others. The company has its registered office and two manufacturing units in Vadodara, Gujarat.

Analytical Approach

Acuite has considered the standalone view of the business and financial risk profile of IEPL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management with an established track record of operations and reputed clientele

IEPL has an established operational track record of nearly three decades in manufacturing various process equipments. It is promoted by Mr. Jayantilal M. Panchal (Chairman & Managing Director), who possess nearly three decades of experience in the field of process equipments. He is supported by other directors Mr. Ashvinkumar K. Panchal and Mr. Bharat K. Panchal who possess nearly three decades of experience in the same industry. The promoter & directors are being supported by its team of experienced professionals in managing day to day operations of IEPL. The extensive experience of the promoter and directors has enabled IEPL to establish a healthy relationship with its reputed clientele such as IOCL, HPCL, GACL, BPCL, GAIL amongst others.

Acuité believes that the vast experience of the promoter & directors and its reputed clientele base will benefit the company in getting new orders over the long term.

Weaknesses

Below average financial risk profile

Financial risk profile of IEPL is below average marked by low networth, high gearing and average debt protection metrics. The networth of the company stood lower albeit improved to Rs.11 Cr as on 31 March, 2022 as against Rs.10 Cr as on 31 March, 2021 on account of accretion to reserves. The gearing (debt-equity) stood marginally improved albeit remained high at 3.00 times as on 31 March, 2022 as against 3.25 times as on 31 March, 2021 on account of increase in the short term bank borrowings. The gearing of the company is however expected to improve and remain moderate over the medium term on account of absence of any debt funded capex plans in the future. The total debt of Rs.34 Cr as on 31 March, 2022 consists of long term bank borrowings of Rs.4 Cr and short term bank borrowings of Rs.30 Cr.

The interest coverage ratio and DSCR stood improved at 1.88 times and 1.22 times for FY2022 as against 1.45 times and 1.00 times for FY2021. The Net Cash Accruals to Total debt stood marginally improved at 0.08 times for FY2022 as against 0.06 times for FY2021. The Total outside liabilities to Tangible net worth stood high at 5.77 times for FY2022 as against 5.68 times for FY2021. The Debt to EBITDA ratio stood improved at 4.18 times for FY2022 as against 4.85 times for FY2021.

Acuité believes that IEPL's ability to improve its financial risk profile over the medium term will remain a key rating sensitivity factor.

Working capital intensive nature of operations

The operations of IEPL are highly working capital intensive marked by its Gross Current Assets (GCA) of 211 days for FY2022 which stood improved as against 285 days for FY2021. The inventory cycle of the company which though remains elongated however recorded an improvement in FY2022 of 83 days as against 122 days in FY2021. The inventory cycle remains usually high on account of the company's work in progress, as it operates in two different divisions i.e. site operations and workshop operations which involves various processes right from testing of all the various manufactured equipments to their installation and hence depending on the nature of the work, it generally takes upto six months of time for the company to finish the entire work order. On the other hand, the receivable days stood improved at 73 days in FY2022 as against 101 days in FY2021 on account of improved realisation from the debtors during the year whereas the creditor days stood high at 162 days in FY2022 as against 139 days in FY2021 on account of increase in the procurement of raw materials at various sites from large number of suppliers. The average bank limit utilization for 6 months' period ended September 2022 stood high at ~80 percent.

Acuité believes that IEPL's ability to improve and maintain an efficient working capital cycle will remain a key rating sensitivity factor.

Decline in operating margin and high execution risk of pending work orders

Despite of increase in IEPL's overall revenue, the operating margin of the company however remained deteriorated on a year-on-year basis. It reported at 7.22 percent in FY2022 as against 10.35 percent in FY2021 and 13.66 percent in FY2020. This is majorly on account of increase in the cost of raw materials and various job work expenses been carried out by the company at different sites. On the other hand, the net profit margin of the company however stood improved at 1.67 percent in FY2022 as against 1.20 percent in FY2021 on account of reduced interest cost and depreciation during the year.

For the current year as on 9M FY2023, IEPL has achieved lower revenue of Rs.47 Cr as against Rs.65 Cr as on 9M FY2022. Further, it has an unexecuted order book of Rs.253 Cr as on December 2022, which is expected to be executed over the next 1 or 2 years and hence provides adequate revenue visibility over the medium term.

Acuité believes that IEPL's ability to maintain its scale of operations while improving its operating margin and timely execution of pending work orders will remain a key rating sensitivity factor.

Rating Sensitivities

- Ability to improve financial risk profile
- Ability to improve and maintain an efficient working capital cycle
- Ability to maintain scale of operations while improving operating margin and timely execution of pending work orders

Material covenants

None

Liquidity position - Stretched

IEPL has stretched liquidity position marked by insufficient net cash accruals (NCA) against its debt repayment obligations and elongated working capital cycle. The company generated cash accruals in the range of Rs.2 Cr to Rs.3 Cr during FY2020 to FY2022 against its repayment obligation in the range of Rs.2 Cr to Rs.1 Cr during the same period. Going forward the NCA are expected in the similar range of Rs.2 Cr to Rs.3 Cr for period FY2023-FY2024 against its repayment obligation of around Rs.1 Cr for the same period. The working capital operations of the company are highly intensive marked by its gross current asset (GCA) days of 211 days for FY2022 as against 285 days for FY2021 on account of high inventory cycle during the same period. This makes the company dependent on bank borrowing for working capital requirement. The average bank limit utilization for 6 months' period ended September 2022 stood high at ~80 percent. Current ratio stands at 1.00 times as on 31 March 2022. The company has maintained cash & bank balance of Rs.0.17 Cr in FY2022.

Acuité believes that the liquidity of IEPL is however likely to improve over the medium term on account of generating sufficient cash accruals against its debt repayment obligations.

Outlook: Stable

Acuité believes that IEPL will maintain 'Stable' outlook over the medium term on account of its experienced management with an established track record of operations and reputed clientele base. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	106.69	62.87
PAT	Rs. Cr.	1.78	0.75
PAT Margin	(%)	1.67	1.20
Total Debt/Tangible Net Worth	Times	3.00	3.25
PBDIT/Interest	Times	1.88	1.45

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

Not applicable

Any other information

None

Applicable Criteria

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

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
The Mehsana Urban Cooperative Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	20.50	ACUITE A4 Assigned
The Mehsana Urban Cooperative Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	29.50	ACUITE B+ Stable Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	30.70	ACUITE A4 Assigned
UMA CO-OPERATIVE BANK LTD.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.16	ACUITE B+ Stable Assigned

Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.08	ACUITE B+ Stable Assigned
IDFC First Bank Limited	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	0.06	ACUITE B+ 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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