



Press Release
HAMON COOLING SYSTEMS PRIVATE LIMITED
November 20, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	75.00	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	85.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**Acuite BBB-**' (read as **Acuite triple B minus**) and short-term rating of '**Acuite A3**' (read as **Acuite A three**) on the Rs. 85.00 Cr bank facilities of Hamon Cooling Systems Private Limited (HCSPL). The outlook is '**stable**'.

Rationale for rating assigned

The rating assigned considers the established track record of the company over the last two decades along with established experience of the management in this cooling towers industry. The rating is further supported by above average financial risk profile for the company marked by healthy gearing and strong debt protection metrics with debt-equity stood at 0.48 times and DSCR at 129.89 times as on 31st March 2023. Further, the rating also considers the addition of new spare parts business for the company which is a margin accretive for the company. However, these strengths are partly offset by the intensive working capital operations for the company as marked by higher GCA days of 226 days in FY23. Further, it also factors in the risk faced by the company from strong competition and industry specific revenue concentration.

About the Company

Hamon Cooling Systems Private Limited (HCSPL) was originally a part of Belgium based Hamon Group. It was incorporated as Indian subsidiary of parent company Hamon & Cie (International). Later in April 2022, Hamon and Cie (International) filed for bankruptcy, which eventually led to the new promoter Mr. Akhileshwar Gangadeen Chorasiya taking charge of Indian subsidiary - HCSPL in October 2022.

HCSPL carries out design, manufacture, construction, and commissioning of different types of cooling towers and systems. It offers a wide range of wet cooling towers, including large natural draft concrete cooling towers, FRP package towers, and large mechanical draft cooling towers made from concrete, wood or FRP-pultrusion. They also provide forced draft towers along with spares and maintenance of cooling towers. Manufacturing facility of company is situated at Umbergaon, (Gujarat).

The current directors of the company are Mr. Akhileshwar Gangadeen Chorasiya. and Mr. Akash Ohri.

Unsupported Rating

Not Applicable

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Hamon Cooling Systems Private Limited to arrive at the rating.

Key Rating Drivers

Strengths

Established track record with professional and experienced Management

HCSPL has an established track record of operations dating back more than two decades. Over the years company has established a strong position in this industry leading to gain a sizeable market share in wet cooling tower industry. The new promoter of the company Mr. Akhileshwar Chorasaya is already into the business of cooling towers from past ten years through one of his other companies Cleanflow Cooling Tower Solutions Private Limited and was being already associated with HCSPL as a sub-contractor over the years. HCSPL as on date caters around 80 percent of its revenue from the government orders. The order book of the company as of October 2023 stands at around Rs. 461 crores providing a stable revenue visibility over the medium term.

Acuite believes that HCSPL will continue to benefit from its established track record of operations and experienced management in near to medium term.

Above Average Financial Risk Profile

The financial risk profile of the company stood above Average, marked by moderate net worth, healthy gearing (debt-equity) and strong debt protection metrics. The tangible net worth stood at Rs.38.06 crores as on 31 March 2023 as against Rs.21.55 crores as on 31 March, 2022. The increase in net worth was led by exceptional income of Rs. 12.56 crores which was recorded as write off in Trades payable and Receivables related to group companies of previous promoter. The total debt of the company stood at Rs.18.12 crores which includes short-term debt of Rs.9.78 crores in form of Cash Credit and unsecured loans of Rs.8.34 crores as on 31 March 2023. The company follows a conservative financial risk policy reflected through its peak gearing of 0.48 times as on 31 March 2023. The gearing (debt-equity) stood at 0.48 times as on 31 March 2023 as compared to 0.01 times as on 31 March, 2022. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 2.07 times as on 31 March, 2023 as against 3.4 times as on 31 March, 2022. Debt Service Coverage Ratio (DSCR) and Interest Coverage Ratio stood at 129.89 times in FY2023 as against 4.12 times in FY2022. Net Cash Accruals to Total Debt (NCA/TD) stood at 1.03 times for FY2023 as against 28.28 times for FY2022.

Acuite expects the financial risk profile of the company may continue to remain above average on account of steady cash accruals with no debt-funded capex plans.

Changing revenue mix leading to higher operating margins

From the current financial year, HCSPL has entered into the sale of spare parts business wherein the company would be selling different spare parts related to cooling systems such as cooling fans, FRP fan stacks, various In fills such as Non clog film type fill, High efficiency film type fill etc. This new vertical is a higher margin accretive for the business which will lead to significant jump in operating and profitability margins for the company. Along with it, the payment terms related to this new vertical are comfortable for the company as around 45 percent of the order value is being paid in advance to them.

Acuite believes that increasing revenue mix from this new spare part business is likely to be positive for the company.

Weaknesses

Intensive Working Capital Management

The working capital management of the company is Intensive marked by GCA days of 226 days in FY23 as against 181 days in FY22. The high GCA days are on account of higher other current assets for the company. The company-maintained inventory levels of around 1 day in FY23 as against 2 days for FY22. Inventory days are marked lower as the client directly gets the inventory supplied to plant. Subsequently, the debtor's collection period stood at 88 days in FY23 as against 84 days for FY22. Furthermore, the creditor days stood at 105 days in FY23 as against 158 days in FY22. As a result, the reliance of working capital limits is moderate, reflected by average utilizations of around ~85 percent in last 8 months ended October' 2023.

Acuite expects the working capital operations of the company may continue to be intensive on as long as other current assets of the company remains high relative to operating income.

Risk from stronger competition and sector specific revenue

The Cooling towers industry in which HCSPL operates is highly dominated by Paharpur Cooling Towers Limited which is into business of both dry as well as wet cooling towers. Along with that it is also in the manufacturing of heat exchanger, dust collectors etc. Further the revenue of HCSPL is highly concentrated from oil and gas sector. Any slowdown in this particular industry would make it difficult for the company.

Rating Sensitivities

- Significant increase in order book and execution capabilities, leading to improvement in financial and business risk profile of the company.
- Improving its working capital operations.
- Timely execution of the contracts leading to long relation with the clients.

All Covenants

None

Liquidity Position Adequate

The company's liquidity position is adequate, marked by moderate net cash accruals against the no major maturing debt obligations. The company generated sufficient net cash accruals in the range of Rs.5.66-18.69 crore from FY2021-23 against no major maturity repayment obligations in the same tenure. In addition, it is expected to generate sufficient cash accrual in the range of Rs.8.54 – 10.3 crore over the medium term. The working capital management of the company is intensive marked by GCA days of 226 days in FY2023 as against 181 days in FY2022. The reliance of working capital limits is moderate reflected by average utilizations of around ~85 percent in last 8 months ended October' 2023. The company maintains unencumbered cash and bank balances of Rs.9.89 crore as on March 31, 2023. The current ratio stands at 1.19 times as on March 31, 2023 as against 0.91 times as on 31 March, 2022. Acuite believes the liquidity position of the company may continue to remain adequate with steady cash accruals.

Outlook: Stable

Acuite believes the outlook on HCSPL will continue to remain 'Stable' over the medium term backed by its long track record of operations and experienced management. The outlook may be revised to 'Positive' if the company is able to successfully acquire higher orders which will lead to significant improvement in scale of operations and the profitability margins while also improving its working capital operations. Conversely, the outlook may be revised to 'Negative' in case of any operating inefficiency by HCSPL leading to deterioration in revenue and profitability along with financial risk profile and liquidity position of the company.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	130.50	121.40
PAT	Rs. Cr.	16.61	2.57
PAT Margin	(%)	12.73	2.11
Total Debt/Tangible Net Worth	Times	0.48	0.01
PBDIT/Interest	Times	129.89	4.12

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

None

Any other information

None

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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
Bank of Baroda	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	27.00	ACUITE A3 Assigned
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB- Stable Assigned
Bank of Baroda	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	48.00	ACUITE A3 Assigned

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About Acuité Ratings & Research

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