

October 31, 2023

ISGEC Redecam Enviro Solutions Pvt. Ltd.: Rating reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|----------------|--------------------------------------|-------------------------------------|--------------------------------|
| Non-fund Based | 20.0 | 20.0 | [ICRA]BBB (Stable); reaffirmed |
| Total | 20.0 | 20.0 | |

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the rating continues to factor in the close business linkages of ISGEC Redecam Enviro Solutions Pvt. Ltd (IRPL) and its 51% joint venture (JV) ISGEC Heavy Engineering Ltd [IHEL; rated [ICRA]AA (Stable)/ [ICRA]A1+] and its strategic importance for the environment solutions segment of the latter. IRPL benefits from the operating synergies with its JV partner – IHEL - that has an established track record in the capital goods space and strong client relations in process industries, thereby supporting business development, material procurement and vendor network. Redecam Group SPA -the other JV partner - provides technology support. There is also an established track record of timely financial support from the JV partner – IHEL- in the form of corporate guarantee extended against working capital facilities and need-based advances. Further, IRPL shares its brand name with both the JV partners, pointing to the reputation sensitivity for both. Thus, ICRA expects IHEL to be willing to extend timely financial support to IRPL, as and when needed.

ICRA notes that the company's scale has been limited in the past 5-6 years, a period during which the focus of the management was on product development and gaining acceptance from the end-user customers in the cement, steel, tyre, carbon black and other process industries. During this period, IRPL faced some teething issues, besides pandemic-related disruptions that resulted in execution delays as well. The results of these initiatives have now started to reflect in the order inflow, evident from an order intake of Rs. 23.7 crore in FY2023 and over Rs. 80 crore in H1 FY2024. The revival of capex in the end-user industries with adherence to stringent emission norms aided a healthy order inflow for the company, which is expected to continue in the near to medium term, thereby supporting a steady growth in its overall scale of operations. The rating further draws comfort from the favourable credit profile of the JV partner, IHEL, as well as its established position in the engineering capital goods space.

However, the rating remains constrained by the company's small scale of operations and its modest order book position and a minimal tangible net worth. Moreover, given the company's presence in niche product segments, its order book remains concentrated towards a few industries, such as steel and cement. Hence, IRPL's business prospects remain vulnerable to the capacity investment plans of these sectors. It also remains exposed to input price volatility because of the fixed-price contracts, given its order execution cycle that can extend to 24-30 months for turnkey projects.

The Stable outlook factors in the expectation that IRPL would continue to benefit from its strong parentage.

Key rating drivers and their description

Credit strengths

Strong operational and financial linkages with IHEL - IRPL is a 51:49 joint venture between Isgec Heavy Engineering Limited (IHEL) and the Redecam Group, Italy. The company benefits from the customer relations, business generation, vendor network

as well as financial support (working capital advances, corporate guarantee for bank facilities) from IHEL. Redecam, which supplies environment solutions equipment in Europe, provides technical support to the company.

Established position of IHEL in engineering capital goods - IHEL is a reputed player in the engineering capital good space. IHEL's capital goods products include boilers, presses, pressure vessels, catering to clients across 90 countries. The products offered by IRPL, such as bag filters, add to the product basket of IHEL and also cater to the captive requirements of its boiler division.

Improving order flows with product acceptability and capex revival in end-user industries – IRPL's order inflow improved to over Rs. 80 crore in H1 FY2024 compared to Rs. 23.69 crore in FY2023. During the five years ended FY2022, IRPL's scale had been limited and the order flow was muted as the company focused on product development during this period and faced teething issues in executing orders, besides pandemic-related disruptions. However, the benefits of these efforts during the product development phase are now reflected in the sizeable orders won in H1 FY2024 from reputed steel manufacturers and a healthy pipeline of orders from targeted industries currently under discussion.

Credit challenges

Small scale of operations, modest order book position and high client concentration – IRPL has a small scale of operations with revenues of Rs. 14.5 crore in FY2023, demonstrating a YoY growth decline of 61% on account of lower order execution during the year. The closing order book remained modest at Rs. 17.5 crore as on March 31, 2023 even as the company bagged sizeable orders in H1 FY2024.

Exposure to input price volatility – IRPL's profitability remains exposed to input price volatility due to the fixed-price contracts. The risk is mitigated, to an extent, by the short execution period and back-to-back fixed-price contracts with vendors.

Moderate credit profile– The company has a moderate credit profile, characterised by modest profits and accruals and a net worth of Rs. 0.5 crore as on March 31, 2023, largely on account of its small scale of operations. However, with increased order flows and execution from FY2024, the profits and cash accruals are expected to expand in the medium term, thereby improving its credit profile.

Liquidity position: Adequate

IRPL receives customer advances prior to initiating the execution of the orders, which supports its working capital requirements. Moreover, the company has unutilised fund-based facilities and enjoys financial flexibility from being part of IHEL. The company's liquidity position is expected to remain adequate with advances continuing to fund majority of the working capital requirements and the availability of unutilised limits even as it scales up its cash flows from operations in the medium term.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company's scale of operations improves and there is accretion of profits on a sustained basis, leading to a healthy credit profile and strengthened net worth position. ICRA could also upgrade the rating if the credit profile of the joint venture partner, IHEL, improves.

Negative factors – ICRA could downgrade the rating if weak order inflows lead to further moderation in the scale of operations and deterioration in the overall credit profile. The rating could also be downgraded if the credit profile of the joint venture partner, IHEL, deteriorates, or the linkages with the parent weaken.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology Rating Approach- Implicit Support from Parent of Group |
| Parent/Group Support | Joint Venture Partner: ISGEC Heavy Engineering Ltd (IHEL) The rating assigned to IRPL factors in the high likelihood of its JV partner, IHEL [rated [ICRA]AA (Stable)]/[ICRA]A1+], extending financial support to it because of the close business linkages between them. ICRA also expects IHEL to be willing to extend financial support to IRPL out of its need to protect its reputation from the consequences of a group entity's distress. There also exists a consistent track record of IHEL having extended timely financial support to IRPL in the past, in terms of providing corporate guarantee to the lender |
| Consolidation/Standalone | The rating is based on IRPL's standalone financials |

About the company

IRPL is a joint venture (JV), incorporated on February 1, 2017, with an equity share capital of Rs. 2 crore. IHEL, India, has a 51% shareholding in IRPL, while Redecam, Italy holds 49%. The JV is engaged in the engineering business and mainly undertakes fabrication (through sub-contractors), design, sourcing, procurement, testing and commissioning of environmental solutions and equipment, including bag filters and hybrid filters for all industries. IRPL benefits from the technological capability and customer base of its shareholding entities, IHEL and Redecam. As the marketing of orders is within the scope of the JV, the parentage, especially that of Redecam, helps the JV in securing orders for pollution control equipment, particularly bag filters. The collaboration with Redecam and access to its IP technology has given IRPL access to a wide market in India and substantially enhanced the stature of the company in providing critical solutions to reduce air pollution.

Key financial indicators (audited)

| IRPL Standalone | FY2022 | FY2023 |
|--|--------|--------|
| Operating income (Rs. crore) | 37.1 | 14.5 |
| PAT (Rs. crore) | 1.1 | 0.3 |
| OPBDIT/OI (%) | 4.3% | 5.9% |
| PAT/OI (%) | 2.9% | 2.4% |
| Total outside liabilities/Tangible net worth (times) | 142.1 | 38.6 |
| Total debt/OPBDIT (times) | 0.9 | 4.0 |
| Interest coverage (times) | 11.4 | 3.5 |

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| | Instrument | Current rating (FY2024) | | | | Chronology of rating history | | |
|---|----------------|-------------------------|-----------------------------|--|----------------------------------|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as on Mar 31, 2023 (Rs. crore) | Date & rating on Oct 27, 2023 | for the past 3 years | | |
| | | | | | | Date & rating in FY2023 Aug 23, 2022 | Date & rating in FY2022 Jul 02, 2021 | Date & rating in FY2021 Sep 18, 2020 |
| 1 | Non-fund based | Long-term | 20.00 | - | [ICRA]BBB(Stable) | [ICRA]BBB(Stable) | [ICRA]AA(CE)(Negative) | [ICRA]AA(CE)(Stable) |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|--|----------------------|
| Long term - Non-fund Based Working Capital | Very Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|-----------------------|------------------|-------------|----------|--------------------------|----------------------------|
| NA | Non-fund Based | - | - | - | 20.00 | [ICRA] BBB (Stable) |

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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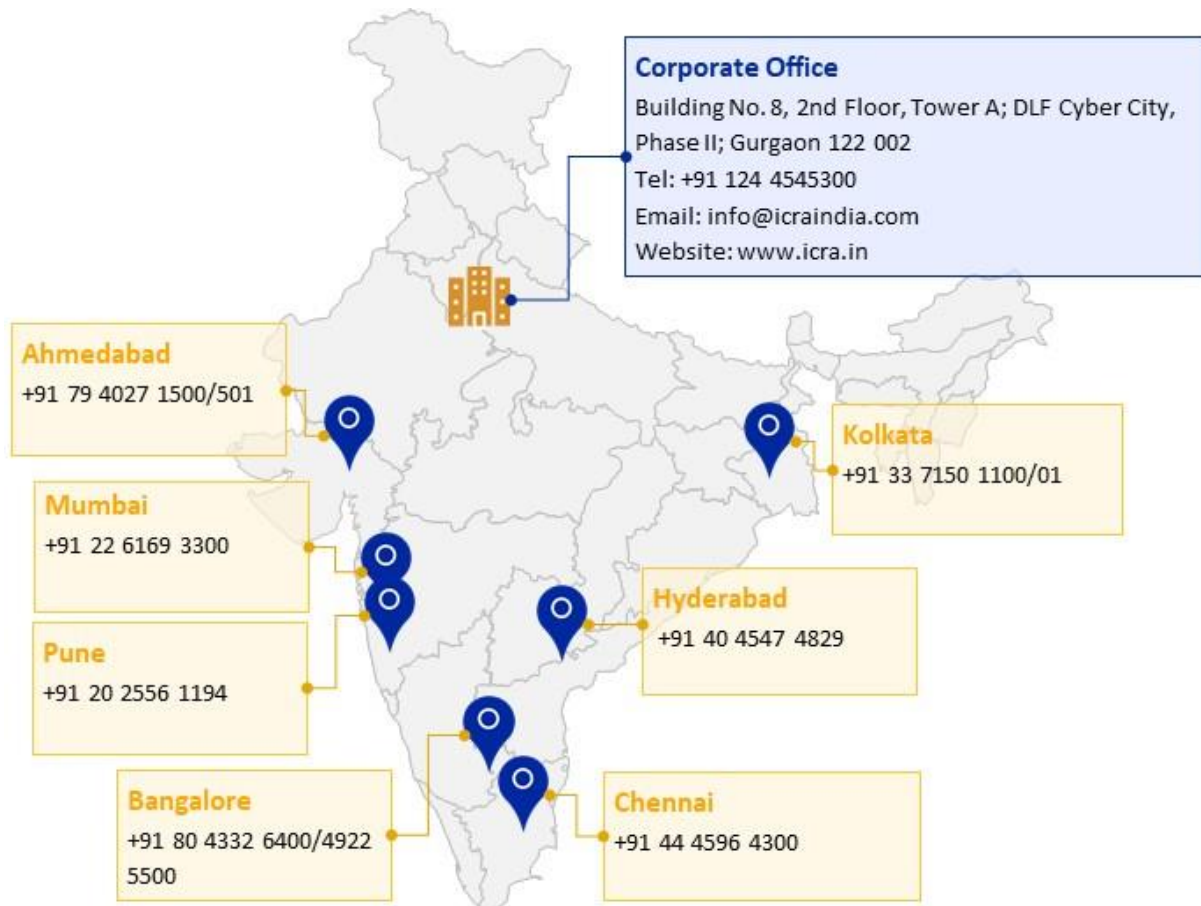
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