

June 28, 2024

Electromech Material Handling Systems (India) Private Limited: Ratings reaffirmed and outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term / Short-term – Fund-based / Non-fund based – Others	134.40	134.40	[ICRA]A-(Positive)/[ICRA]A2+; reaffirmed; outlook revised to Positive from Stable
Long-term / Short-term – Interchangeable – Others	(134.40)	(134.40)	[ICRA]A-(Positive)/[ICRA]A2+; reaffirmed; outlook revised to Positive from Stable
Total	134.40	134.40	

*Instrument details are provided in Annexure-I

Rationale

The revision in rating outlook for Electromech Material Handling Systems (India) Private Limited (EMHS) to Positive from Stable reflects ICRA's expectation that the credit profile of the entity will improve over the near to medium term, supported by the ramp up in its scale of operations, along with sustenance of low leverage and comfortable coverage indicators. The revenue from the relatively more profitable services business has increased by 17% YoY in FY2024 (46.4% in FY2023), which is expected to aid margin expansion going forward.

The ratings factor in EMHS' established position in the domestic overhead travelling crane industry, comfortable outstanding order book (OB) position, providing adequate revenue visibility, and its expanding presence in erection and maintenance services, which will support its profitability over the medium term. ICRA notes the diversification of EMHS' customer portfolio across various end-user industries, along with increased geographical diversification in the domestic as well as overseas markets, which mitigates the risk of slowdown in any specific industry or geography. The ratings consider the Group's (viz. EMHS along with its subsidiaries) low external debt (mainly vehicle loans) and strong liquidity position, which along with a prudent working capital management supports its financial risk profile. The customer advances resulted in limited dependency on external borrowings for working capital purposes, thereby strengthening the overall liquidity position.

The ratings, however, remain constrained by the vulnerability of its profitability to adverse fluctuations in input prices, as most of its orders are fixed price in nature. EMHS remains exposed to the cyclicity in capital investments by the key end-user industries and stiff competition from other organised as well as unorganised players, which limits its pricing flexibility, especially in the lower tonnage cranes segment. Its ability to regularly garner orders amid a competitive market remains important to sustain its scale and profitability. The Group is looking for organic growth opportunities, which is expected to further strengthen its brand positioning in the medium to long term. However, a higher-than-expected debt-funded expansion or a change in the business model resulting in reduction in the overall customer advances, which materially impacts its liquidity profile remains a key monitorable.

Key rating drivers and their description

Credit strengths

Established player in domestic overhead travelling crane industry – EMHS holds a considerable market share in the organised segment of the domestic overhead crane manufacturing industry. The company benefits from the technological tie-up with ABUS Crane Systems, Germany and an agreement with Stahl Crane Systems GmbH, Germany, to distribute the 'Ex Range' of Stahl products in India. Further, its presence (via. subsidiary Cranedge India) in providing crane erection and maintenance

services, enhances its a competitive edge, offers diversification in revenue as well as contributes relatively higher margin, albeit on lower absolute basis.

Reputed clientele; diversified presence across multiple end-user industries – EMHS' customer profile includes reputed players in automotive and ancillaries, infrastructure, steel, and general engineering industries. Additionally, it caters to the Middle East and Southeast Asian markets via its step-down subsidiaries in Saudi Arabia, UAE and Indonesia, offering geographical diversification to its revenue streams. The varied customer base and increased geographical diversification mitigate the risk of slowdown in any particular industry or geography. That said, any material slowdown in operations or lower-than-expected margins in the overseas business could impact the Group's overall financial profile and would be a key monitorable going forward.

Strong liquidity position with limited long-term debt; working capital largely funded by customer advances – EMHS maintains a strong liquidity position, with ~Rs. 111 crore in cash and liquid investments and minimal long-term debt as on March 31, 2024. The Group is expected to exhibit a strong liquidity position with no significant debt-funded capital expenditure lined up and a favourable working capital cycle, supported by high customer advances.

Credit challenges

Moderate scale of operations – EMHS' scale of operations remains moderate with consolidated operating income (OI) of Rs. 613.6 crore in FY2024 and Rs. 515.7 crore in FY2023. Its unexecuted order book of ~Rs. 488 crore as on March 31, 2024, translating into an order book/OI ratio of 0.8 times, provides adequate near-term revenue visibility. The company's ability to consistently garner orders as well as timely execution of the order book remains important for revenue and profitability expansion.

Exposure to cyclicity in capital investments by manufacturing companies – The Group's performance remains susceptible to cyclicity in investments by the end-user industries. However, the diversification across varied end-user industries protects the company from slowdown in demand from any specific industry.

Vulnerability of profitability to adverse fluctuations in input prices and intense competition – EMHS' profitability remains susceptible to adverse fluctuations in input prices, given the fixed-price nature of majority of its contracts. The Indian crane market is fragmented, with the unorganised sector (catering to lower-sized cranes) holding ~40% of the market share. Nevertheless, the company's focus and expanding presence in the high-margin erection and maintenance services business are expected to support its profit margins over the medium term.

Liquidity position: Strong

EMHS' liquidity position is expected to remain strong with healthy cash accruals, supported by buffer available in working capital limits (~Rs. 61 crore as on March 31, 2024) and free cash and liquid investments aggregating to ~Rs. 111 crore as on March 31, 2024. The Group has marginal debt servicing obligations. The overall investment outlay is likely to remain around ~Rs. 50 crore over the next two years and will be funded largely by internal accruals. Considering the healthy cash flow from operations and modest capex/investment plans, the company is estimated to generate free cash flows, which will help in keeping the overall liquidity at comfortable levels.

Rating sensitivities

Positive factors – The rating could be upgraded if the company is able to sustain its scale and profitability while maintaining its strong liquidity position and comfortable capital structure.

Negative factors – The ratings could be downgraded if there is any material decline in the company's revenues and profitability, or any major debt-funded capex or elongation in the working capital cycle, resulting in deterioration in its liquidity position or coverage metrics. Specific credit metrics affecting the ratings include a TOL/TNW above 1.35 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction Vehicles
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has considered the consolidated financials of EMHS. As on March 31, 2023, EMHS had five subsidiaries and six-step down subsidiaries (as per Annexure II).

About the company

EMHS is involved in the design, manufacturing, installation, and servicing of electric overhead travelling cranes (single girder and double girder), gantry cranes, jib cranes, underslung cranes, wire rope hoists, forklifts and customised material handling solutions for shop floor applications. The company was incorporated in May 1996 and started operations in December 2004. EMHS has its sole manufacturing facility at Pirangut, near Pune (Maharashtra). At present, it has a total installed manufacturing capacity of 2,000 cranes annually.

EMHS set up a 100% subsidiary, Cranedge, in January 2010, which acts as a service agent for EMHS for its erection and commissioning work as well as provide such services to other players in the industry. The company has set up a ~100% subsidiary in Mauritius, which in turn has set up a wholly-owned subsidiary in Dubai (Electromech FZE) that acts as a trading office for EMHS and as a service agent to the foreign customers of EMHS. Additionally, in FY2019, the Mauritius entity has set up a wholly-owned subsidiary in Indonesia (PT Electromech Indonesia) to cater to the clients in Southeast Asia.

Key financial indicators (audited)

EMHS Consolidated	FY2023	FY2024*
OI (Rs. crore)	515.7	613.6
Profit after tax (PAT, Rs. crore)	64.5	78.5
OPBDIT/OI (%)	16.2%	17.3%
PAT/OI (%)	12.5%	12.8%
Total outside liabilities/Tangible net worth (times)	0.9	0.8
Total debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	26.1	32.1

Source: Company, OPBDIT: Operating profit before depreciation, interest, taxes and amortisation *Provisional numbers

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jun 28, 2024	-	Mar 29, 2023	Dec 31, 2021
1 Long-term/Short-term – Fund-based / Non-fund Based – Others	Long term and short term	134.40	-	[ICRA]A-(Positive)/[ICRA]A2+	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+
2 Long-term/Short-term – Interchangeable – Others	Long term and short term	(134.40)	-	[ICRA]A-(Positive)/[ICRA]A2+	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term – Fund-based / Non-fund Based	Simple
Long-term/Short-term – Interchangeable	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term/Short-term – Fund-based / Non-fund Based - Others	NA	NA	NA	134.40	[ICRA]A-(Positive)/[ICRA]A2+
NA	Long-term/Short-term – Interchangeable – others	NA	NA	NA	(134.40)	[ICRA]A-(Positive)/[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	EMHS Ownership	Consolidation Approach
Cranedge India Private Limited	100%	Full Consolidation
Electromech Infrastructure Equipment Pvt. Ltd.	100%	Full Consolidation
Electromech Overseas	100%	Full Consolidation
Electromech Lift Trucks Private Limited	100%	Full Consolidation
Nebbiolo Solutions LLP	100%	Full Consolidation
Electromech FZE	100% (Step-down subsidiary)	Full Consolidation
Electro Mech Equipment Trading LLC	100% (Step-down subsidiary)	Full Consolidation
PT Electromech Material Handling	100% (Step-down subsidiary)	Full Consolidation
PT ElectroMech Manufacturing Industries	100% (Step-down subsidiary)	Full Consolidation
ElectroMech Industry Company	100% (Step-down subsidiary)	Full Consolidation
Nebbiolo Investment Holding SRL	100% (Step-down subsidiary)	Full Consolidation

Source: Company annual report FY2023

ANALYST CONTACTS

Rajeshwar Burla

+91 40 6939 6443

rajeshwar.burla@icraindia.com

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Chintan Dilip Lakhani

+91 22 6169 3345

chintan.lakhani@icraindia.com

Shanttanu Phulzade

+91 20 6606 9910

shanttanu.phulzade@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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