

June 06, 2023

## Tempsens Instruments (I) Pvt. Ltd.: Rating reaffirmed.

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Cash credit	30.50	30.50	[ICRA]A-(Positive); reaffirmed
Long term - Bank guarantee	18.00	18.00	[ICRA]A-(Positive); reaffirmed
Long term – Unallocated	4.50	4.50	[ICRA]A-(Positive); reaffirmed
<b>Total</b>	<b>53.00</b>	<b>53.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of the long-term rating of Tempsens Instruments (I) Pvt. Ltd. (TIPL or the company) continues to take note of the improvement in its business performance in FY2023, which is expected to sustain over the medium term. Further, the lower dependence on external debt and healthy accruals are anticipated to maintain the company's healthy financial risk profile. The rating continues to draw comfort from the experience of TIPL's promoters of more than 40 years in thermal engineering solutions. The rating also considers its strong market position in heat-resistant devices for the glass industry, which has resulted in strong relationships with some reputed customers. The rating also favourably factors in the company's large client base that ensures a diversified revenue stream across multiple end-user industries, lowering the customer concentration risks.

The Positive outlook on the long-term rating continues to factor in ICRA's expectation of a healthy growth in turnover and strong profitability, led by a ramp-up in sales from the cable and conductor business and growth in export sales.

The rating is, however, constrained by the company's moderate scale of operations. Despite a steady growth in scale in the recent fiscals, TIPL's scale remains moderate as it operates in the niche segment of heat treatment and electrical heating. Further, the export market faces intense competition, which has led to modest growth in exports. To address this challenge, the management of TIPL has devised strategies to expand globally. They plan to establish assembly units in international markets and pursue acquisitions as part of their growth strategy. ICRA also factors in the high working capital intensity in the business on account of elongated receivables and elevated inventory holding requirement. However, ICRA notes that the company's healthy cash accruals have helped fund its working capital requirements.

### Key rating drivers and their description

#### Credit strengths

**Strong market position for heat resistant devices** – Over the years, TIPL has served as a qualified vendor for heat-resistant devices for various clients and continues to get repeat business. The company has an established track record of over four decades in manufacturing a broad range of thermal engineering products, which find wide application across industries like glass, chemicals, power, nuclear etc. It draws support from the professional and technically qualified management that has considerable experience in the field. This is evident from the healthy revenue growth in the last four-year period ended FY2023, driven by the huge replacement demand for such products.

**Low geographic and customer concentration risks** – TIPL has a large client base that ensures a diversified revenue stream across multiple end-user industries, resulting in low customer concentration risk. The top 10 customers contributed to ~20% of the revenues in the last two fiscals. TIPL and its promoters have entered two joint-venture arrangements (technical collaboration with local partners) in Germany and Indonesia to increase exports.

**Healthy financial risk profile** – TIPL has maintained healthy operating margins and accruals in the past. However, in FY2023 (provisional), the operating margins declined 330 basis points (bps) to 18.7% year-on-year. This decline can be attributed to an increase in the revenue mix from cables, which is a relatively low-margin business compared to the heat-resistant product segments. Despite this, the company's absolute OPBDITA achieved a healthy growth of 5% in FY2023 compared to the previous year, primarily due to the increase in scale. TIPL has planned capital expenditure (capex) to enhance its cable and conductor capacity over the next two fiscals. This expansion is expected to result in higher sales from cables and conductors, which may lead to some moderation in the margin profile (~100-150 bps in FY2024). Nevertheless, the absolute profitability is anticipated to witness healthy growth in the current fiscal, driven by an expected increase (~24-30%) in the overall scale.

The financial risk profile for the company remains healthy, supported by a strong net worth base of Rs. 138.3 crore as on March 31, 2023. Additionally, the company's financial risk profile is enhanced by the absence of long-term debt and its minimal reliance on short-term borrowings. These factors contribute to comfortable leverage and healthy debt coverage indicators, reflected in interest coverage of 23.7 times, TD/OPBDITA of 0.6 times and DSCR of 19.8 times in FY2023 (provisional). The financial risk profile is expected to remain comfortable over the medium term.

### Credit challenges

**Moderate scale of operations and exposure to competition in export market** – The company's scale of operations has remained moderate despite a healthy 23.7% growth in operating income in FY2023. This is because it operates in the niche segment of heat treatment and electrical heating. The steady demand, given the consumable nature of the product, has resulted in low entry barriers. Further, stiff competition and the prerequisite of having local presence in the export market has resulted in modest export growth. However, ICRA notes that the company registered a healthy growth of ~24% in FY2023 led by a change in the product mix towards higher value-added thermal heating products where the realisation was high and the increase in sales from the cable and conductor segment. Further, the company is in the process of increasing its cable and conductor capacity which along with the expected increase in export sales is expected to scale up the company's revenues. The margin remains exposed to commodity price fluctuation risk, though the management tries to mitigate the same by procuring order-backed inputs.

**High working capital intensity** – The working capital intensity of the business was high at ~34.7% in FY2022 and 34.9% in FY2023 on account of the elongated collections and high inventory holding requirement. However, ICRA notes that the company's healthy accruals have resulted in minimal external debt to fund its working capital requirements.

### Liquidity position- Adequate

The liquidity position of TIPL is adequate on account of healthy cash generation and absence of any long-term repayment obligations. Besides, the company has cushion available in the working capital limits with average utilisation of ~48% of its sanctioned limits of Rs. 30.50 crore during the last 12 months ended March 2023 and free cash and bank balance of Rs. 1.3 crore as on March 31, 2023.

### Rating sensitivities

**Positive factors** – ICRA could upgrade TIPL's rating if the company is able to increase its scale while maintaining healthy profitability and debt protection metrics and a strong liquidity profile.

**Negative factors** – A substantial decline in the scale of operations or weakening in profitability, leading to a deterioration in the key credit metrics, may lead to a downgrade. Any large debt-funded capex or stretch in the working capital cycle adversely impacting the liquidity profile and other key credit metrics may also result in a downgrade. A specific trigger that may lead to a downgrade is TOL/TNW of 1.5 times or above on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

TIPL offers solutions for thermal engineering like manufacturing of temperature sensors — thermowells, thermocouples and control and instrumentation cables for process equipment in various industrial applications. The company, which is a part of the Pyrotech Group, is promoted by Mr. V.P. Rathi, Mr. P.S Talesera, Mr. C.P Talesera and Mr. N. K. Pandey in 1976. The products find application in various industries like cement, power, steel, pharmaceuticals, glass, chemicals and fertilisers, petrochemicals and auto industries. TIPL caters to the requirements of more than 4,000 customers and has sales in more than 75 countries across the globe.

## Key financial indicators

	FY2021	FY2022	FY2023*
Operating income	139.7	195.6	241.9
PAT	17.6	30.7	31.1
OPBDIT/OI	20.2%	22.3%	18.9%
PAT/OI	12.6%	15.7%	12.9%
Total outside liabilities/Tangible net worth (times)	0.6	0.5	0.5
Total debt/OPBDIT (times)	0.8	0.6	0.6
Interest coverage (times)	13.9	23.7	23.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortization, \* Provisional

## 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 for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as on Feb 28, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				June 06, 2023	August 23, 2022	June 17, 2021	September 16, 2020
1 Fund-based - Cash credit	Long Term	30.50	30.50	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2 Fund-based - Term loan	Long Term	-	-	-	-	-	[ICRA]BBB+ (Stable)
3 Non-fund based limits	Long Term	18.00	18.00	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)

<b>Unallocated limits</b>	Long Term	4.50	4.50	<b>[ICRA]A- (Positive)</b>	<b>[ICRA]A- (Positive)</b>	<b>[ICRA]A- (Stable)</b>	-
<b>4</b>							

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term: Cash credit	Simple
Long term: Bank guarantee	Very Simple
Long term: Unallocated	NA

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: Cash credit	NA	NA	NA	30.50	[ICRA]A- (Positive)
NA	Long term: Bank guarantee	NA	NA	NA	18.00	[ICRA]A- (Positive)
NA	Long term: Unallocated	NA	NA	NA	4.50	[ICRA]A- (Positive)

Source: company, \*Unplaced

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

**Annexure II: List of entities considered for consolidated analysis- Not applicable**

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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For more information, visit [www.icra.in](http://www.icra.in)

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