

January 24, 2017

Indian Compressors Limited

Instrument*	Rated Amount (in crore)	Rating Action
Fund Based Limits	5.00	[ICRA]BB+ (Stable) reaffirmed
Non Fund Based Limits	5.00	[ICRA]A4+ reaffirmed
Total	10.00	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed its long term rating on the Rs. 5.00 crore fund based limits of Indian Compressors Limited (ICL)† at [ICRA]BB+ (pronounced ICRA double B). The outlook on the long term rating is 'Stable'. ICRA has also reaffirmed its short term rating on the Rs. 5.00 crore non-fund based limits of ICL at [ICRA]A4+ (pronounced ICRA A four).

Detailed Rationale

The ratings continue to be constrained by the company's modest scale of operations with an operating income of Rs. 25.97 crore in FY2016. The ratings are also constrained by the company's high working capital requirements with substantial amount of working capital blocked in inventory and receivables, due to maintaining high spares volume and the clientele being skewed towards public sector customers. The high dependence on the oil and gas sector also makes the company vulnerable to the inherent capital expenditure cyclicality of the sector. Further, ICRA also notes the increase in the external finance from banks as working capital limits and term loans. The ratings also take into consideration that the company remains vulnerable to the risk of foreign exchange fluctuations as there is no explicit hedging mechanism in place and the company is primarily reliant on the natural hedge between imports and exports.

However, the ratings favourably take into account the more than seven decades of experience of ICL's promoters in this business and also the healthy credit profile of the company as on March 31, 2016. ICL has a gearing of 0.70x as on March 31, 2016, however, majority of the long term debt of the company is in the form of unsecured convertible debentures. Adjusting for these debentures, ICL has an adjusted gearing of 0.24x as on March 31, 2016, with adequate coverage indicators. The rating also takes into account the strong clientele of the company with repeat orders from customers such as GAIL, BHEL and MGL. Additionally, the rating also factors the healthy order book position and operating income achieved till December 15, 2016 of 19.24 crore indicating strong near term business certainty.

Going forward, the ability of the company to bring about a sustained improvement in its profitability and liquidity, will be the key rating sensitivities.

Key rating drivers

Credit Strengths

- More than seven decades of experience of ICL and its promoters in the business
- Healthy credit profile with a gearing of 0.7x as on March 31, 2016 coupled with comfortable debt protection metrics
- Health revenue visibility as the company has already achieved an OI of Rs. 19.24 crore till December 14, 2016 and has orders in hand worth Rs. 39.3 crore
- Strong clientage with repeat orders from customers including GAIL, BHEL and Mahanagar Gas Limited but high dependence on oil and gas sector makes it vulnerable to inherent capex cyclicality of the oil and gas industry

Credit Weakness

- Moderate scale of business
- Working capital intensive operations with substantial amount of working capital blocked in inventory and receivables (mainly with government customers)
- Vulnerable to forex risk with limited hedging due to natural hedging and no explicit hedging mechanism

Detailed description of key rating drivers highlighted above:

ICL was initially incorporated as Didwania Brothers Private Limited in 1943. The name of the company was changed to "Indian Compressors Limited" in 1988. The company is managed by the Didwania family with Mr. Hemant Didwania as the Managing Director. ICL has generated a total income of Rs. 19.24 crore till December 14, 2016 and has orders worth Rs. 39.32 crore in hand. The company envisages achieving Rs. 30-32 crore. ICL has a healthy credit profile with a gearing of 0.70x as on March 31, 2016, although it has deteriorated from 0.49x as on March 31, 2016. Further, of the total debt, Rs. 2.24 crore are term loans primarily for vehicle loan and some for machineries, Rs. 9.38 crore unsecured loans in forms of optionally fully convertible debentures and Rs. 6.15 crore as working capital loans. The interest coverage is also comfortable at 3.88x as on March 31, 2016. The NCA/total debt is also comfortable at 14% for as on March 31, 2016. Client base of the company includes public sector and private sector oil and gas companies, industrial gas manufacturers and capital goods manufacturers for these companies. The company supplies its products mainly to clients in oil and gas industry and revenue from this sector contributed to more than half of the total income for 2015-16. ICL's client-base is largely skewed towards public sector undertakings which results in prolonged receivable collection period. However, in case of private sector clients payments are received either in advance or short credit period is allowed.

The working capital intensity of ICL is high with a large working capital cycle due to the high level of inventory and debtors. The inventory includes raw materials and components with an average holding period of more than six months due to the high lead time for component sourcing and manufacturing process. The company has to hold a variety of components to meet the orders promptly, leading to high inventory level. In case of debtors, as the major clientage of ICL is derived from public sector, the payment period from customers is usually large leading to high debtor days. The company usually pays its creditors within a month, leading to low payable days and high working capital intensity. The scale of operations remain moderate with an operating income of Rs. 25.97 crore and ~16% of the operating income is derived from export orders with inadequate forex hedging instrument resulting in susceptibility to any adverse forex movements.

Analytical approach: Corporate Credit Rating –A Note on Methodology

Links to applicable Criteria

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

About the Company:

ICL was initially incorporated as Didwania Brothers Private Limited in 1943. The name of the company was changed to "Indian Compressors Limited" in 1988. The company is managed by the Didwania family with Mr. Hemant Didwania as the Managing Director. The company manufactures air and gas compressors and cryogenic and centrifugal pumps. The company's manufacturing facility is at Okhla Industrial Area (Delhi) with an area of 50,000 sq. ft. The company has a tie up with Cryostar, a French multinational for the sales of pumps. ICL's major customers include MGL, GAIL, Green Gas, EOL, GSPC, MNGL, Oxair Systems and WIL.

ICL recorded a net profit of Rs. 1.22 crore on an operating income of Rs. 25.97 crore for the year ending March 31, 2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating (2016)			Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crores)	Date & Rating	Date & Rating in FY2015	Date & Rating in FY2014	Date & Rating in FY2013
				January 2017	September 2015	September 2014	
1	Fund Based Limits – Cash Credit	Long Term	5.00	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	NA
2	Non-Fund Based Limits – Bank Guarantee	Short Term	5.00	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund Based Limits- Cash Credit	-	-	-	5.00	[ICRA]BB+ (Stable)
Non-Fund Based Limits – Bank Guarantee	-	-	-	5.00	[ICRA]A4+

Contact Details

Analyst Contacts
Sabyasachi Majumdar

+91 124 4545 304

sabyasachi@icraindia.com
Vipin Jindal

+91 124 4545 355

Vipin.jindal@icraindia.com
Raja Samantray

+91 124 4545 382

raja.samantray@icraindia.com
Relationship Contact
Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com
About ICRA Limited:

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.

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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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500