

Indian Compressors Ltd.

December 21, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Working Capital Facilities	5.00	5.00	[ICRA]BB+ (Stable); Reaffirmed
Non-fund based - Working Capital Facilities	5.00	5.00	[ICRA]A4+; Reaffirmed
Total	10.00	10.00	

Rating action:

ICRA has reaffirmed a long-term rating of [ICRA]BB+ (pronounced ICRA double B plus) to the Rs. 5.00 crore¹ fund-based facilities of Indian Compressors Limited (ICL or the company). ICRA has also reaffirmed a short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) to the Rs. 5.00 crore non-fund based bank facilities of ICL². The outlook on the long-term rating is Stable.

Rationale:

The ratings reaffirmation takes into account the significant decline in profitability in FY2017 on account of cancellation of an order, which led to an increase in liquidated damage expenses. This has also resulted in deterioration of other credit profile metrics of the company with interest coverage of 1.86 times and NCA/Total Debt of 8% in FY2017. The company is exposed to the risk of order execution delay as approvals are required at many stages during execution and the raw material-procurement cycle is long (45% of the raw material is imported). Further, as the company's business is order based with major customer base skewed towards the oil and gas sector, it remains exposed to capex cyclicality in the end-user industries. The company registered almost flattish growth in FY2017 as a result of slow order inflow and decline in revenue from service and maintenance charges. The ratings are also constrained by the company's relatively modest scale of operations. ICL's profitability also remains exposed to stiff competition from other established domestic players. The company's margins are also sensitive to raw material price risks due to fixed-price sales orders. Further, the ratings take into account that the long receivable days and inventory days that have led to high working-capital intensity and full utilisation of the company's working capital limits.

Nevertheless, the ratings continue to reflect the company's established track record as a supplier of compressors and pumps, its reputed clientele consisting mainly of reputed public sector undertakings (PSUs) in the oil and gas industry with a history of repeat orders, and its comfortable capital structure with low gearing. ICRA also notes that the company's current unexecuted order-book position (~2.07 times of FY2017 revenues) remain healthy and lend revenue visibility for the next 12-15 months.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes that ICL will continue to benefit from the extensive experience of its promoters. The outlook may be revised to Positive if the company is able to secure new orders, timely execute those orders, and efficiently manage its working capital cycle which strengthens its financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers:

Credit strengths

Healthy track record of promoters: The company's promoters are technically competent and have extensive experience in the compressors and pumps business. The company has subsidiaries in foreign countries that are in similar business lines and have strong operational and financial linkages with ICL. Further, their established relations with customers over the years augur well for business growth.

Health revenue visibility: The company has orders in hand of around Rs. 50 crore, which lends visibility to revenues for the next 12-15 months. ICL is targeting to achieve a growth of more than 25% in FY2018. In addition, the company has been receiving healthy orders for wet leasing of compressors from customers.

Strong clientele with repeat orders from customers: ICL's customer base mainly includes PSUs like Gas (India) Limits (GAIL), Bharat Heavy Electricals Limited (BHEL), Mahanagar Gas Limited (MGL) and many others with which it has established strong relationships. This results in repeat orders over the years. However, high dependence on oil and gas sector makes it vulnerable to inherent capex cyclicity of the oil and gas industry.

Comfortable capital structure: The company's capital structure is lightly leveraged with gearing at 0.71 times as on March 31, 2017. Most of its debt is short term and the near-term debt repayment burden is low.

Credit challenges

Decline in profitability: The profitability of the company dipped sharply in FY2017 with operating profit margin (OPM) declining to 7.80% and net profit margin (NPM) decreasing to 2.85% in FY2017 from 13.17% and 4.71% respectively in FY2016.

Uncertainty in order outlook over the medium term: The company's turnover is moderate with a turnover of Rs. 25.17 crore in FY2017. The order inflow depends on the expansion and revamp plans of key user industries, namely oil and gas. As a result, the company remains exposed to cyclicity in the user industries.

Working capital-intensive operations: A substantial amount of the company's working capital is blocked in inventory and receivables funding (mainly with Government customers), which has led to high working-capital intensity in the past. However, most of the ICL's customers are large PSUs that have been associated with the company for many years. These entities are regular in payments, albeit with moderate administrative delays, which limits the counterparty credit risk.

Ability to execute orders within time: As most of the orders from PSUs have liquidated damages (LD) clauses, the ability of the company to execute orders within time remains very critical to avoid LD claims. Notably, quantum of LD claims was high in FY2017. Timely procurement of raw material to meet aggressive delivery schedule of its customers will remain a key concern.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Approach for Financial Ratio Analysis](#)

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) across an area of 50,000 sq. ft. The company has a tie-up with Cryostar, a French multinational, for sales of pumps. ICL’s major customers include reputed PSUs.

In FY2017, the company reported a net profit of Rs. 0.72 crore on an operating income (OI) of Rs. 25.17 crore compared with a net profit of Rs. 1.22 crore on an OI of Rs. 25.97 crore in the previous year.

Key financial indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	25.97	25.17
PAT (Rs. crore)	1.22	0.72
OPBDIT/ OI (%)	13.17%	7.80%
RoCE (%)	6.85%	5.23%
Total Debt/ TNW (times)	0.70	0.71
Total Debt/ OPBDIT (times)	5.20	9.54
Interest Coverage (times)	3.88	1.86
NWC/ OI (%)	94.29%	89.18%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating December 2017	Date & Rating in FY2017 January 2017	Date & Rating in FY2016 September 2015	Date & Rating in FY2015 October 2014
1 Cash Credit	Long Term	5.00	NA	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
3 Bank Guarantee	Short Term	5.00	NA	[ICRA]A4+	[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	5.00	[ICRA]BB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	5.00	[ICRA]A4+

Source: Indian Compressors Ltd.

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