

August 23, 2022

Tempsens Instruments (I) Pvt. Ltd.: Ratings reaffirmed; 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-Cash Credit	30.50	30.50	[ICRA]A-(Positive) reaffirmed; outlook revised to Positive from Stable
Long Term- Bank Guarantee	10.00	18.00	[ICRA]A-(Positive) reaffirmed; outlook revised to Positive from Stable
Long Term- Unallocated	12.50	4.50	[ICRA]A-(Positive) reaffirmed; outlook revised to Positive from Stable
Total	53.0	53.0	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook on the long-term rating of Tempsens Instruments (I) Pvt. Ltd. (TIPL or the company) factors in ICRA's expectation of a healthy growth in turnover and a sustained improvement in profitability, led by the ramp-up in sales from the cable and conductor business. Moreover, the lower dependence on external debt is expected to keep the company's financial risk profile healthy, characterised by a conservative capital structure, adequate liquidity profile and comfortable debt coverage metrics.

The rating draws comfort from the experience of TIPL's promoters of more than 40 years in the field of 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. ICRA notes that repeat and replacement orders from its major customers have driven its revenue growth in the last five fiscals. The rating also favourably factors in the company's large client base that ensures a diversified revenue stream across multiple end-user industries, lowering customer-concentration risks.

The rating is, however, constrained by the company's moderate scale of operations. Despite a steady growth in scale in recent fiscals, TIPL's scale remains moderate as it operates in the niche segment of heat treatment and electrical heating. The demand is steady, given the consumable nature of the product, which has resulted in low entry barriers. Further, the export market is exposed to stiff competition, resulting in modest export growth.

Nonetheless, ICRA notes that TIPL has increased the capacity for its wires and cables, which has helped grow the scale in the last two fiscals. Its scale is likely to increase, going forward, with further expansion plans of the cable and conductor unit. ICRA also factors in the high working capital intensity in the business on account of stretched collections (from large clients) and high inventory holding requirement. However, ICRA notes that the company's healthy cash accruals have helped in funding 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 two 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. The same resulted in a healthy revenue growth in the last four-year period ended FY2022, driven by the huge replacement demand of 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 risks. The top 10 customers contributed to ~20% of the revenues in the last two fiscals. TIPL and its promoters have entered into two joint-venture arrangements (technical collaboration with local partners) in Germany and Indonesia to increase the exports.

Healthy financial risk profile – TIPL's operating margins remained healthy in the last five years and increased to ~22% in FY2022. The margins depend on the highly technical nature of operations, given the metallurgical expertise required, leading to healthy year-on-year accruals. This, coupled with the absence of long-term debt and minimal reliance on short-term borrowings, has led to healthy coverage indicators for the company as reflected in the interest coverage of 23.9 times in FY2022, TD/OPBDITA of 0.6 times in FY2022 and DSCR of 7.2 times in 19.8 times in FY2022. The company has capex plans to enhance the capacity of its cable and conductor division in the next two fiscals, which is expected to result in healthy revenue growth in the near term. As this capex is to be funded through internal accruals, the company's credit metrics are expected to remain healthy, going forward.

Credit challenges

Moderate scale of operations and exposure to competition in export market – The company's scale of operations has remained moderate despite the healthy growth in operating income in the last five years. 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 perquisite of having local presence in the export market has resulted in a modest export growth. However, ICRA notes that its new unit to produce cables was set up in February 2020, which helped its scale grow in FY2021 and FY2022. Further, the company's 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 ~33.7% in FY2021 and 34.6% in FY2022 on account of the stretched collections and high inventory holding requirement. However, ICRA notes that the company's healthy accruals have resulted in minimal external debt for funding its working capital requirements.

Liquidity position: Adequate

The liquidity position of TIPL is adequate on account of the healthy cash generation and absence of any long-term repayment obligations. The company has cushion available in the working capital limits. The average utilisation of its working capital limits was 57% of its sanctioned limits as on March 31, 2022.

Rating sensitivities

Positive factors – ICRA could upgrade TIPL's rating if the company is able to improve its scale and profitability on a sustained basis while maintaining healthy debt protection metrics and 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 rating 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 downgrade is TOL/TNW of 1.5 times or above on a sustained basis

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

Note (for analyst reference only):

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. Rath and Mr. P.S. Talesera in 1976. The products find application in various industries like cement, power, steel, pharmaceuticals, glass, chemical 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 (Audited)

IOL Standalone	FY2021	FY2022*
Operating income	139.7	195.9
PAT	17.6	30.7
OPBDIT/OI	20.2%	22.4%
PAT/OI	12.6%	15.7%
Total outside liabilities/Tangible net worth (times)	0.6	0.5
Total debt/OPBDIT (times)	0.8	0.6
Interest coverage (times)	13.9	23.9

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

*Provisional financials for FY2022

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating on August 23, 2022	for the past 3 years		
						Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
1	Fund-based - Cash Credit	Long Term	30.50	30.50	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)

2	Fund based-Term Loan	Long Term	0.00	0.00	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Non-fund Based Limits	Long Term	18.00	18.00	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
4	Unallocated Limits	Long Term	4.50	4.50	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-	-
5	Short Term: Non-fund Based – Letter of Credit	Short Term	-	-	-	-	-	[ICRA]A2; withdrawn

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: www.icra.in

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

Annexure II: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Sabyasachi Majumdar

+ 91-124-4545300

sabyasachi@icraindia.com

Girishkumar Kashiram Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Sanket Thakkar

+91 79 4027 1528

sanket.thakkar@icraindia.com

Preet Ludhwani

+ 91-79-40271500

Preet.Ludhwani@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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

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.

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



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.