

August 30, 2022

ISGEC Redecam Enviro Solutions Pvt. Ltd.: Rating withdrawn and simultaneously assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund based	20.0	20.0	[ICRA]AA(CE) (Negative) withdrawn; simultaneously [ICRA]BBB (Stable) assigned
Total	20.00	20.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA has withdrawn its rating of [ICRA]AA(CE) (Negative) for the bank facilities of ISGEC Redecam Enviro Solutions Pvt. Ltd. (IRPL) and has simultaneously assigned a fresh rating of [ICRA]BBB (Stable) to these facilities. The rating action follows the Guidance Note and the FAQ document issued by the Reserve Bank of India (RBI) to the credit rating agencies on April 22, 2022, and July 26, 2022, respectively, guiding that the benefit of a corporate guarantee that does not meet the evaluation mechanism/ criteria defined by the RBI is not to be considered while assigning the credit enhanced (CE) ratings¹. Among the other considerations, the [ICRA]AA(CE) rating drew comfort from the presence of a corporate guarantee extended by IRPL's parent to the lenders of the rated bank facilities.

For assigning the rating, ICRA had assessed the attributes of the guarantee issued by ISGEC Heavy Engineering Ltd. (IHEL), holding a 51% stake, in favour of the rated facility. While the guarantee was legally enforceable, irrevocable, unconditional, covered the entire amount and tenor of the rated facility and met all the attributes of a strong guarantee, it did not have a well-defined invocation and payment mechanism. Taking cognisance of the above, ICRA had assigned a rating of [ICRA]AA(CE) to the said facility against the unsupported rating of [ICRA]BBB [and in relation to the guarantor's rating of [ICRA]AA]. The Negative outlook reflected ICRA's outlook on the rating of the guarantor IHEL, that has been subsequently revised to Stable.

To align itself with the aforesaid regulatory guidance, ICRA would no longer be considering in its credit assessments the benefit of a guarantee that lacks an invocation and payment mechanism, though such a support represents a relatively strong expression of commitment on the part of the support provider for the supported facilities in comparison to the support that is only implicit in nature. Accordingly, ICRA has assigned the rating of [ICRA]BBB (Stable) to the above bank facilities of IRPL, while withdrawing the [ICRA]AA(CE) (Negative) rating.

ICRA notes that IRPL and its parent IHEL (rated [ICRA]AA (Stable)) have close business linkages and IRPL is of strategic importance to its parent. Therefore, ICRA expects IHEL to be willing to extend timely financial support to IRPL, as and when needed. There also exists a consistent track record of IHEL having extended timely financial support to IRPL in the past. IRPL's rating factors in the above strengths, arising from a parent with a relatively strong credit profile, even as the benefit of the guarantee extended by the parent has been ignored.

¹ The RBI has permitted the existing (CE) ratings to continue until the residual tenor of the loan. However, for the (CE) ratings outstanding on working capital facilities that are renewed periodically (like cash credit facilities that fall due for renewal at an annual frequency), the residual tenor of these facilities is to be considered as the time remaining until the next due date of renewal.

The rating draws comfort from the favourable credit profile of the parent, IHEL, as well as its established position in the engineering capital goods space. Further, IHEL shares its brand name with IRPL. IRPL benefits from the operating synergies with its JV partner – IHEL - that has an established track record in the capital goods space as well as client relations, thereby offering support for marketing and order procurement. Redecam Group SPA -the other JV partner - provides technology support.

While the rating favourably factors in the improvement in the company's credit profile in FY2022, it remains constrained by the company's small scale of operations and its modest order book position and net worth. Moreover, given the company's presence in niche product segments, its order book remains concentrated towards a few industries, such as steel and sugar, linking IRPL's business prospects to the capacity investment plans of these sectors. It also remains exposed to input price volatility because of the fixed-price contracts.

The Stable outlook factors in the expectation that IRPL would continue to benefit from its strong parentage.

Key rating drivers and their description

Credit strengths

Established position of IRPL's key shareholder IHEL in engineering capital goods – IHEL is a reputed players in the engineering capital good space. IHEL capital goods products include boilers, presses, pressure vessels, among others, catering to clients across 90 countries.

Strong operational and financial linkages with IHEL – IRPL is a 51:49 joint venture (JV) between IHEL and the Redecam Group, Italy. The company is involved in the engineering business and mainly undertakes fabrication (through subcontractors), designing, sourcing, procurement, testing and commissioning of environmental solutions and equipment, including bag filters and hybrid filters for the sugar, steel, power, material handling and municipal solid waste treatment industries.

IRPL benefits from the operating synergies with its JV partner – IHEL - as well as client relations, thereby offering support for marketing and order procurement. Redecam - the other JV partner - provides technology support. Further, the strong operational and financial linkages with IHEL are evident from the support for business generation, bag filter supply contracts for IHEL's engineering, procurement, and construction (EPC) orders as well as access to advances for working capital management. IRPL's facilities are backed by IHEL's corporate guarantee.

Credit challenges

Small scale of operations, modest order book position and high client concentration – IRPL has a small scale of operations with revenues of Rs. 37 crore in FY2022, which improved from Rs. 26 crore in FY2021 with the easing of Covid-19 related restrictions. Further, IRPL's order intake remained muted, contracting the closing order book to Rs. 9.4 crore as on March 31, 2022 compared with Rs. 30.7 crore as on March 31, 2021. Moreover, the client concentration risk remains high with five customers accounting for more than 90% of its order book as on March 31, 2022. With minimal order execution and inflows in Q1 FY2023, the order book remained at a similar level as on June 30, 2022. Nevertheless, with the increased capital investment in the end-user industries, some order flows are expected during the fiscal to allow a modest revenue growth in FY2023.

Exposure to input price volatility – IRPL's profitability remains exposed to input price volatility due to the fixed-price contracts. The risk is mitigated, to an extent, by the short execution period and back-to-back fixed-price contracts with vendors.

Modest net worth position – With a modest scale and relatively nascent stage of operations, IRPL is expected to earn modest profits and cash accruals in the medium term. IRPL reported both operating profits as well as net profit in FY2022 with increased supplies as the company recovered from Covid-19 related issues. The net worth became negative in FY2021 and turned marginally positive in FY2022.

Liquidity position: Adequate

Despite the long working capital cycle, IRPL has an efficient working capital management system with project execution commencing only after the receipt of customer advance. The defect liability requirements are fulfilled through bank guarantees. The company's liquidity position is expected to remain adequate with advances continuing to fund majority of the working capital requirements, resulting in relatively low utilisation of limits in the absence of any major capex plans.

Rating sensitivities

Positive factors - ICRA could upgrade the rating of the company if its scale of operations improves, and there is accretion of profits on a sustained basis, leading to a healthy net worth. ICRA could also upgrade the rating if the overall credit profile of the parent, IHEL, improves.

Negative factors – ICRA could downgrade the rating if weak order inflows lead to further moderation in the scale of operations and deterioration in the overall credit profile. The rating could also be downgraded if the credit profile of the parent, IHEL, deteriorates or the linkages with the parent weaken.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Policy on Withdrawal of Credit Ratings
Parent/Group Support	Parent Company: ISGEC Heavy Engineering Ltd (IHEL) The rating assigned to IRPL factors in the high likelihood of its parent, IHEL [rated [ICRA]AA (Stable)], extending financial support to it because of the close business linkages between them. ICRA also expects IHEL to be willing to extend financial support to IRPL out of its need to protect its reputation from the consequences of a group entity's distress. There also exists a consistent track record of IHEL having extended timely financial support to IRPL in the past, in terms of providing corporate guarantee to the lender on IRPL's behalf.
Consolidation/Standalone	The rating is based on IRPL's standalone financials

About the company

IRPL, incorporated on February 1, 2017, is a JV with 51% shareholding by IHEL, India, and the balance 49% by Redecam, Italy. The JV is involved in the engineering business and mainly undertakes fabrication (through sub-contractors), design, sourcing, procurement, testing and commissioning of environmental solutions and equipment, including bag filters and hybrid filters for all industries.

Key financial indicators (audited)

IRPL Standalone	FY2021	FY2022
Operating income (Rs. crore)	26.2	37.1
PAT (Rs. crore)	(2.9)	1.1
OPBDIT/OI (%)	-14%	4.3%
PAT/OI (%)	-11%	2.9%
Total outside liabilities/Tangible net worth (times)	NM	142.1
Total debt/OPBDIT (times)	NM	0.9
Interest coverage (times)	NM	11.4

Source: Company, ICRA Research

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; NM: Not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2022)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding* (Rs. crore)	Date & rating on	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				Aug 30, 2022	Jul 09, 2021	Sep 25, 2020	Apr 10, 2019	
1 Non-fund based	Long Term	20.0	-	[ICRA]BBB (Stable)	[ICRA]AA(CE) (Negative)	[ICRA]AA(CE) (Stable)	[ICRA]AA(SO) (Stable)	

*As on March 31, 2022;

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – Non- Fund Based Working Capital	Very 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: 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	Non-fund based	NA	NA	NA	20.0	[ICRA]BBB(Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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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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