

July 11, 2019

Econ Cylinders (P) Limited: [ICRA]BB-(Stable)/[ICRA]A4 rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based/CC	8.00	[ICRA]BB-(Stable); Assigned
Long term – Unallocated	1.50	[ICRA]BB-(Stable); Assigned
Short term – Non fund based	0.50	[ICRA]A4; Assigned
Total	10.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings consider Econ Cylinders (P) Limited's (ECPL) modest scale of operations in the cylinder manufacturing industry, which is characterised by intense competition from organised and organised players, limiting margins. ICRA notes that the company's revenues and capacity utilisation remain exposed to the risks associated with the tender-based bidding system. The ratings factor in its weak financial profile characterised by a high gearing, modest net worth, and moderate coverage indicators. ECPL's working capital requirements are high, given the high inventory holding. The same is reflected by its high average utilisation of its working capital limits.

The ratings, however, draw comfort from the extensive experience of the promoters in the cylinder manufacturing industry resulting in the company's established relationships with reputed customers. Repeat orders from customers supported its revenue growth over the past few years. However, the revenues declined in FY2018 as the company discontinued trading of CNG cylinders. The ratings factor in the healthy demand prospects due to the Government's impetus on enhancing LPG penetration in the domestic market.

Outlook: Stable

ICRA believes ECPL will benefit from the healthy demand prospects for LPG in the domestic market and its established relationships with a reputed customer base. The outlook may be revised to Positive if higher-than-expected growth in revenue and profitability, and better working capital management, strengthens the 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 the liquidity.

Key rating drivers

Credit strengths

Experienced promoters in the cylinder manufacturing industry: The company's promoters have extensive experience of over a decade in the LPG cylinder manufacturing, which resulted in established relationships with a reputed customer base. ECPL's customer profile includes reputed players such as Bajaj Auto Limited, TVS Motor Co. Ltd., Indian Oil Corporation, Bharat Petroleum Corporation Limited and Hindustan Petroleum Corporation Limited. Repeat orders from customers supported its revenue growth over the past few years. However, ECPL's revenues declined in FY2018 as it discontinued trading of CNG cylinders.

Healthy demand prospects: The demand for LPG cylinders in the domestic market is likely to be buoyant, given the Government’s increasing focus to enhance LPG penetration in the Indian market, which would augur well for the company.

Credit challenges

Small scale of operations with moderate capacity utilisation: The company has small scale operations with revenues of Rs. 51.3 crore in FY2019 and its capacity utilisation declined to 49% in FY2019 on account of lower orders from the oil marketing companies (OMCs) for supply of domestic LPG cylinders, wherein, the orders are tender-based. Moreover, ECPL’s revenues are exposed to demand fluctuations in the automobile sector, which accounted for 45.4% of its revenues in FY2019.

Modest financial profile: The company’s financial profile is characterised by a high gearing of 2.0 times and modest net worth of Rs. 6.2 crore as on March 31, 2019, and moderate coverage indicators. ECPL’s working capital requirements are high given the high inventory holding, and the same is reflected by its high average utilisation of working capital limits. Moreover, a part of its working capital requirements is met by the high credit period extended by its Group company for supply of raw materials

Intense competition and tender-based bidding restricts margins: The LPG cylinder manufacturing sector is characterised by stiff competition with presence of organised and unorganised players. Moreover, the tender-based bidding process for supply to OMCs restricts profitability. The company’s margins are exposed to fluctuations in raw material costs. However, the presence of price escalation clauses in the contracts mitigates this risk to an extent.

Liquidity position

The company’s liquidity position is stretched owing to high inventory holding and the same is reflected by its high average utilisation of 94% of working capital limits during January 2018 to March 2019. ECPL’s liquidity was supported by the higher credit period extended by its group company for supply of raw materials in the past.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent / Group Support	Not Applicable
Consolidated / Standalone	The rating is based on the company’s standalone financials

About the company

Incorporated in 2012, ECPL started commercial production in 2013 and is involved in manufacturing cylinders for domestic and industrial use. The company’s manufacturing facility is in Vishakhapatnam, Andhra Pradesh with an installed capacity of 6,50,000 units per annum. It supplies to automobile sector and OMCs.

Key financial indicators

Particulars	FY2018	FY2019*
Operating Income (Rs. crore)	48.4	51.3
PAT (Rs. crore)	0.4	1.8
OPBDIT/OI (%)	5.2%	7.5%
RoCE (%)	13.6%	17.5%
Total Debt/TNW (times)	2.2	2.0
Total Debt/OPBDIT (times)	3.7	3.2
Interest Coverage (times)	2.4	3.5

*Estimates; Source: Company and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Rating history for last three years:

Instrument	Type	Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July, 2019	Date & Rating in FY2018	Date & Rating in FY2017	
1	CC	Long Term	8.00		[ICRA]BB-(Stable)	-	-
2	Unallocated	Long Term	1.50		[ICRA]BB-(Stable)	-	-
3	BG	Short Term	0.50		[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	Long-term – Fund-based/CC	NA	NA	NA	8.00	[ICRA]BB-(Stable)
NA	Long-term – Unallocated	NA	NA	NA	1.50	[ICRA]BB-(Stable)
NA	Short term – Non-fund based/BG	NA	NA	NA	0.50	[ICRA]A4

Source: Econ Cylinders (P) Limited

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