Press Release

Airflow Equipments India Private Limited (AEIPL)

May 20, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Fund Based Facility – Cash Credit	35.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
2.	Long Term Fund Based Facility – Term Loan	14.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
3.	Long Term / Short Term Non Fund Based Bank Facility – Bank Guarantee/ Letter of Credit	20.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook) / IVR A3 (IVR A Three)	Assigned
	Total	**69.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Airflow Equipments India Private Limited (AEIPL) derives strength from extensive experience of its promoters, long association with Indian Railways (IR) and sharp growth in revenues in FY19 & 9MFY20 coupled with satisfactory profit margins and comfortable leverage and debt coverage indicators. Further, the ratings also notes its healthy order book indicating satisfactory near to medium term revenue visibility. However, these rating strengths are partially offset by susceptibility of its operations to downturn in IR orders, risk associated with tender based business, stiff competition from reputed domestic & foreign players, increase in working capital intensity of operations with elevated utilization of working capital borrowings.

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Key Rating Sensitivities

Upward rating factor(s)

- Successful execution of order book leading to improvement in revenue and profitability with improvement in its debt protection metrics and generation of positive cash flow from operations on sustained basis.
- Improvement in the capital structure
- Improvement in the operating cycle with improvement in liquidity

Downward rating factor(s)

- Dip in scale of operation and/or moderation in profitability impacting the cash accruals
- Decline in debt servicing parameters stemming from additional debt requirements
- Stretch in working capital cycle impacting the liquidity position

List of key rating drivers with detailed description

Key Rating Strengths

Extensive experience of the promoters

The promoters, Mr D Venkatesan and Mr D Manikandan have been actively involved in the business and have more than two decades of experience in designing, manufacturing and commissioning of Heating, Ventilation and Air Conditioning Systems (HVAC). The promoters are well supported by a team of experienced professionals. The extensive experience of the promoters and the long track record of more than three decades have helped the company to establish a healthy relationship with IR and its suppliers. Experience of the promoters strengthens the business risk profile of the company ta a large extent.

Long association with Indian Railways

The company has RDSO approval and is associated with IR for about 25 years with imparts comfort. The company is specialized in Interior furnishing and manufacturing of Composite-FRP for railways.

Healthy order book indicating satisfactory near to medium term revenue visibility

The company is having a healthy order book status and it is having outstanding order book status of Rs.362 crore as on May 04, 2020 (1.51x of its FY19 revenue) which is to be executed within next 1-2 years, indicating a satisfactory **near to medium term** revenue visibility.

Sharp growth in revenues in FY19 & 9MFY20 coupled with satisfactory profit margins

AEIPL has achieved a CAGR of ~103% during FY17-19 with a sharp y-o-y growth of ~141% in FY19 to Rs.239.66 crore. The growth was driven by diversification towards shell coach manufacturing with large order inflows from Indian Railways and successful execution of the same. Despite sharp growth in operations, the EBITDA margin of the company moderated from 13.7% in FY18 to 8.78% in FY19 though continues to remain satisfactory. The moderation was mainly due to higher increase in revenue from shell coach manufacturing which generally fetch lower margin than HVAC products and operations related to coach interiors. With drop in EBITDA margin along with increase in interest outgo, the PAT margin also witnessed moderation from 5.13% in FY18 to 3.94% in FY19. However, the absolute EBITDA and PAT improved gradually leading to a steady increase in gross cash accruals from Rs.5.48 crore in FY17 to Rs.13.48 crore in FY19. During 9MFY20, the company has earned a PBT of Rs.18.38 crore on total revenue of ~Rs.193.26 crore.

Comfortable leverage and coverage indicators

The capital structure of the company remained satisfactory as on the past three account closing dates ended on March 31, 2019. The debt equity ratio and the overall gearing ratio remained satisfactory at 0.54x and 1.04x respectively as on March 31, 2019 (0.70x and 1.11x respectively as on March 31, 2018). Further, the total indebtedness of the company as indicated by TOL/TNW remained moderate at 3.27x as on March 31, 2019 (3.80x as on March 31, 2018). With healthy impartment in absolute EBITDA, the interest coverage ratio witnessed steady improvement from 3.33x in FY18 to 8.90x in FY19. Further, with improvement in gross cash accruals, Total debt to GCA has also improved and remained satisfactory at 2.22x in FY19 (3.25x in FY18). Infomerics expects that the capital structure of the company will continue to remain satisfactory with healthy debt coverage indicators in the near term.

Key Rating Weaknesses

Susceptibility of operations to downturn in IR orders

AEIPL continues to rely on Indian Railways, which contributes most of the current order book composition. Though the company has tried to diversify its client base by executing orders from the environmental /water treatment/defence sector as well as other players, Indian Railways' orders are the main source of AEIPL's revenues.

Risk associated with tender based business and stiff competition from reputed domestic and foreign players

The number of participants for the tenders floated by the IR generally varies from two to five players on an average. Hence, the revenue is dependent on the company's ability to bid successfully for these tenders. Further, with introduction of e-tendering in IR, the competition also intensified. Given high concentration of AEIPL's revenues towards the IR, it faces intense competition from various reputed equipment manufacture. Its operations thus remain susceptible to any downturn in IR orders. Further, profit margins come under pressure because of this competitive and tender based nature of the industry.

Increase in working capital intensity of operations and elevated utilisation of working capital borrowings

The nature of business of AEIPL entails considerable dependence on working capital requirements both in the form of fund-based and non-fund based borrowings due to relatively longer processing period necessitating high inventory holding period and elongated collection period. Further, the working capital requirements have also increased significantly in FY19 mainly due to increase in working capital requirement attributable to sharp growth in its operation. Moreover, a part of its receivable remained blocked with its key Government client-IR which also intensified its working capital requirements. To fund its increased working capital requirements, the company has availed additional bank borrowings and use higher credit periods availed from the creditors.

Analytical Approach: Standalone

Applicable Criteria

Rating methodology for Manufacturing companies
Financial ratios and Interpretation (Non-Financial Sector)

Liquidity: Adequate

Liquidity position of the company is expected to remain adequate marked by expected gross cash accruals in the range of Rs.43-59 crore in FY21-FY22 as compared to debt obligation in the range of Rs.3-3.5 crore. Further, with a gearing of 1.04 times as of March 31, 2019, the company has sufficient gearing headroom, to raise additional debt for its capex. The average utilization of its fund based bank limit was around ~81 % during the last 12 months ending February, 2020 indicating a satisfactory liquidity buffer. However, the liquidity is constrained due to its high working capital intensity. Enhancement in fund based credit lines with growth in scale of operation is critical for liquidity position.

About the Company

Incorporated in 1998, Airflow Equipments India Pvt Ltd (AEIPL) was initially started as a partnership firm in 1983 by brothers Mr D Venkatesan and Mr D Manikandan in Chennai. AEIPL is one of the leading manufacturer of HVAC in India with its manufacturing facilities located in and around Chennai. In order to diversify its operation the company increase its focus towards manufacturing of rail way coaches since 2000. Initially, the company was mainly dealing with interior parts of the coach. From, 2017-2018 the company also started standalone shell coach manufacturing along with started taking turnkey contracts for complete coach manufacturing including body and interior works. Presently, the company is supplying more than 400 rolling stock equipment's and other custom designed products to Indian Railways. The company majorly caters to the domestic market with Indian Railways (IR) being its major customers contributing more than 90% of its revenue. The company also exports its products to various countries like Finland, Sri Lanka etc.

Financials (Standalone) **(Rs. crores)**

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	99.48	239.66
EBITDA	13.63	21.05

PAT	5.13	9.45
Total Debt	24.56	29.99
Tangible Net worth	15.89	25.35
EBITDA Margin (%)	13.70	8.78
PAT Margin (%)	5.15	3.94
Overall Gearing Ratio (x)	1.11	1.04

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	**Amount outstanding (Rs. crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2019-20**	**Date(s) & Rating(s) assigned in 2018-19**	**Date(s) & Rating(s) assigned in 2017-18**
1.	Cash Credit	Long Term	35.00	IVR BBB- / Stable outlook	--	--	--
2.	Term Loan	Long Term	14.00	IVR BBB- /Stable Outlook	--	--	--
3.	Bank Guarantee /Letter of Credit	Long Term/ Short Term	20.00	IVR BBB- /Stable Outlook /IVR A3	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Press Release

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	--	--	-	35.00	IVR BBB-/ Stable Outlook
Term Loans-I(RDB)	--	--	April 2024	1.87	IVR BBB-/ Stable Outlook
WC Term Loan-I (RDB)			Dec 2024	3.63	IVR BBB-/ Stable Outlook
WC Term Loan-II (RDB)			Jan 2024	4.17	IVR BBB-/ Stable Outlook
Term Loan-II(Fresh)			Jan 2027	5.00	IVR BBB-/ Stable Outlook
Bank Guarantee/ Letter of Credit	--	--	--	20.00	IVR BBB-/ Stable Outlook/IVR A3