Enexio Power Cooling Solutions India Private Limited (EPCS)
April 30, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long term - Fund based limit – Term Loan (GECL)	0.98	IVR BBB- / Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Long term – Fund Based – Cash Credit	15.00	IVR BBB- / Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Short term – Non-Fund based limit – Bank Guarantee / Letter of Credit	50.00	IVR A3 (IVR A Three)	Assigned	Simple
Total	**65.98 (Rupees Sixty-Five Crore Ninety-Eight Lakhs only)**			

Details of facilities are provided in Annexure I

Detailed rationale

The rating assigned to the bank facilities of Enexio Power Cooling Solutions India Private Limited (EPCS) takes into consideration established market position with experienced management team along with reputed clientele base, improving scale of operation along with healthy order book position, undergoing capex, expected to provide better synergies & cost effectiveness and comfortable debt coverage indicators.

The rating is however constrained on account of the low profit margins; albeit improving, moderate capital structure, working capital-intensive nature of operations and risk associated with volatility in the raw material prices.

Key rating sensitivities:

Upward factors

- Sustained and significant improvement in revenue and profitability
- Improvement in the capital structure leading to TOL/TNW below 3x on a sustained basis.

Downward factors

- Any decline in revenue & profitability leading to deterioration in debt protection metrics and/or capital structure.

- Any deterioration in the liquidity profile of the company leading to elongation in the working capital cycle.
- Any major debt-funded capex

List of key rating drivers with detailed description

Key rating strengths

Established market position with experienced management team along with reputed clientele base

The company is engaged into end-to-end solution of air-cooled condensers, cooling towers and manufacturer of fills for wet coolers for around 3 decades. Currently the company is managed by Ms. Swarnamugi Ragupathy and Mr. Parthiban Perumal, both has an experience of more than 20 years The company is able to maintain long relationship with reputed clientele across various sectors such as power, steel etc. The same is reflecting in the repeat orders from many of the clients such as NTPC Limited, Larsen & Toubro Limited, Rungta Mines Limited, etc. Infomerics believes that the long operational track record will continue to benefit EPCS.

Improving scale of operation along with healthy order book position

The company registered increase in the sales to Rs. 210.58 crore in FY24 (Provisional) (FY23: Rs.146.73 crore) on account of timely execution of orders. As on March 2024 end it has an unexecuted order book of around Rs.300.00 crore. However, sustainability of improving scale of operation will remain a key rating monitorable.

Undergoing capex, expected to provide better synergies & cost effectiveness.

The company is undergoing a green field capex of around Rs.45.00 crore (funded majorly by unsecured loan) for the manufacturing of major components (Alex bundle) in Chennai. The capex is expected to be completed in Q1FY25. EPCS previously import these components from China. With a strategic shift towards in house production, the company will be able to control cost along with better synergies.

Comfortable debt protection metrics

With the increase in the scale of operations and improved profitability on y-o-y basis the company interest coverage ratio improved to 12.60x for FY24 as compared to 1.56x reported in FY23. Furthermore, the company reported DSCR of 5.80x as on March 31, 2024 as compared to 1.90x as on Mrach 31, 2023.

Key rating weaknesses

Low profitability margin; albeit improving and moderate capital structure

EPCS's reported y-o-y increase in the EBITDA margin to 5% due to economies of scale, which reduces the fixed cost per unit, however it continued to remain low. With the accretion of the profits to reserves, the capital structure has improved on y-o-y basis, albeit continued to remain moderate as indicated by the Total Outside Liabilities / Tangible Net Worth reported of 4.42x as on March 31, 2024 as compared 6.08x reported as on March 31, 2023. Simultaneously the overall gearing ratio also remained moderate at 1.44x as on March 31, 2024, as compared 2.09x reported as on March 31, 2023. Infomerics expects profitability to increase further on account of economies of scale and cost effectiveness form capex which is expected to be operational shortly.

Risk associated with volatility in the raw material prices

The primary raw materials used for manufacturing cooling towers are PVC and polypropylene. For air-cooled condensers, the company utilizes carbon steel, aluminium, and aluminium-clad carbon steel. The prices of these products remains market driven leading to risk of exposure to volatility in raw material prices. The ability of the company to pass down any incremental costs to its customers will remain a key rating monitorable.

Working capital intensive nature of operations

Due to the nature of the business, the company receives payments after a period of more than 5-6 months, leading to an elongated collection cycle of around 260 days as of March 31, 2023, and 157 days as of March 31, 2024. The major reason for the elongation is the presence of the retention money which amounts to around 45-60% of the total debtors for the past three years ended on March 31, 2024. This is partially funded by creditors, as evidenced by the elongated creditors' holding period of 75-85 days as of March 31, 2024. The overall working capital cycle remained elongated at around 80-120 days in the last three years ended FY24.

Analytical approach: Standalone

Applicable criteria:

Rating methodology for Service sector companies
Financial Ratios & Interpretation (Non-Financial Sector)
Criteria for rating outlook
Criteria – Complexity Level of Rated Instruments/Facilities
Instrument/Facility wise Default Recognition & Post-Default Curing Period

Liquidity – Adequate

EPCS liquidity expected to remain adequate with sufficient cash accruals vis a vis repayments. Furthermore, the company average fund based working capital utilisation remains at 33% in the last twelve months ended January 2024. As per FY24 provisional financials current ratio is at 1.36x, it has a cash & cash equivalent of Rs.0.50 crore as on March 31st, 2024.

About the company

EPCS incorporated in 1996, has been engaged in providing designing, manufacturing, installing, and maintaining cooling systems for the captive power industry in India. Their core products are air-cooled condensers and wet cooling towers, and they prioritize energy efficiency and sustainable solutions, based in Chennai. The company is owned and managed by Ms. Swarnamugi Ragupathy. The core products of the company are air-cooled condensers and wet cooling towers, which prioritize energy efficiency and sustainable solutions. The company has set up a new manufacturing facility in Chennai with an installed capacity of 2000 bundles per year, which were previously imported from China.

Financials (Standalone):

INR in crore

For the year ended* As on	3/31/2022	3/31/2023
	Audited	Audited
Total Operating Income	142.31	143.00
EBITDA	1.65	3.80
PAT	1.95	2.31
Total debt	15.29	51.87

For the year ended* As on	3/31/2022	3/31/2023
	Audited	Audited
Tangible Net worth	22.03	24.78
Ratios		
EBITDA margin (%)	1.16	2.66
PAT margin (%)	1.34	1.57
Overall gearing (x)	0.69	2.09

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1.	Term Loan (GECL)	Long Term	0.98	IVR BBB- / Stable	-	-	-
2.	Cash Credit	Long Term	15.00	IVR BBB- / Stable	-	-	-
3	Bank Guarantee / Letter of Credit	Short term	50.00	IVR A3	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration rom Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

Annexure 1: Details of Facilities: Not Applicable

Name of Facility/ Instrument	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan (GECL)	-	-	May 2025	0.98	IVR BBB-; Stable
Cash Credit	-	-	-	15.00	IVR BBB-; Stable
Bank Guarantee / Letter of Credit	-	-	-	50.00	IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-EnexioPower-apr24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.