Press Release

Airoil Flaregas Private Limited

November 01, 2021

Ratings

Sl. No.	Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities	92.00	IVR BBB-/ Stable (IVR Triple B Minus with a Stable Outlook)	Assigned
2	Short Term Bank Facilities	11.00	IVR A3 (IVR A Three)	Assigned
Total		**103.00**	**INR One Hundred and Three Crores Only**	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Airoil Flaregas Private Limited (AFPL) draws comfort from its established track record of operations under experienced promoters, steady growth in scale of operations with healthy profitability, healthy order book position providing revenue visibility and its comfortable capital structure with satisfactory debt protection metrics. However, these rating strengths are partially offset by working capital-intensive nature of its operations, exposure to subsidiaries and susceptibility to cyclicality in demand from core end-user industries.

Key Rating Sensitivities

Upward Factors

- Sustained improvement in the revenue thereby leading to improvement of profitability and debt protection metrices.
- Sustenance of the capital structure with improvement in the debt protection metrics
- Improvement in working capital cycle leading to improvement in liquidity

Downward Factors

- More than expected moderation in scale of operations thereby leading to further deterioration in profitability and debt metrics.
- Moderation in the capital structure with deterioration in overall gearing to over 1.5x and /or deterioration in interest coverage to below 2x.
- Further elongation of the operating cycle leading to weakening of liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters with established track record of operations**

The company's promoters have over four-decade-long experience in the flare systems industry. Long standing presence in the industry has helped the promoters to establish healthy relationship with customers and suppliers and strengthen its business risk profile to an extent.

- **Steady growth in scale of operations with healthy profitability**

The company witnessed continuous growth in its scale of operation from ~Rs.44 crore in FY19 to ~Rs.91 crore in FY20 and subsequently to ~Rs.102 crore driven by inflow of orders with increase in demand for pollution control equipment's. Being a niche player, the profit margin of the company has remained comfortable over the years. Further, the company has also earned a steady interest on its fixed deposits. The absolute EBITDA and PAT improved from Rs.1.73 crore and Rs.1.90 crore respectively in FY19 to Rs.12.01 crore and Rs.4.33 crore respectively in FY21. Further, the EBITDA and PAT margin has also improved from 3.90% & 4.05% respectively in FY19 to 11.76% & 4.24% respectively in FY21. During H1FY22, the company has achieved a revenue of ~Rs.21.7 crore.

- **Healthy order book position providing revenue visibility**

The company has order book of ~Rs.213 crore as on August 31,2021. The order book is executable over the period of 6 to 24 months based on nature and size of orders. Further, the company has also secured L1 status for orders worth ~Rs. 214 crore from Rajasthan Refinery. The order book position of company provides revenue visibility for near to medium term; however, conversion of orders would be critical from the credit perspective.

- **Comfortable capital structure with satisfactory debt protection metrics**

The capital structure of the company remained comfortable over the past three account closing dates underpinned by its satisfactory net worth base, and lower dependence on external fund-based borrowings. Accordingly, the long-term debt to equity ratio and overall gearing ratio remained comfortable at 0.07x and 0.59x as on March 31,2021 (Prov.) respectively. Tangible net worth of the company stood satisfactory at ~Rs.51 crore as on March 31,2021. Total indebtedness of the company marked by TOL/TNW remained 1.13x as on March 31,2021 (1.32x as on March 31,2020). The debt protection metrics of the company witnessed gradual improvement over the past three fiscals driven by rise in profitability and gross cash accruals.

Key Rating Weaknesses

- **Exposure to subsidiaries**

The company has high exposure to its subsidiaries in the form of advances and extended corporate guarantees.

- **Working capital intensive nature of operation**

The operations of the company remained working capital intensive due to its nature of work marked by its elongated operating cycle and high gross current asset days (325 days in FY21) over the three fiscals ended March 31, 2021. The project completion time depends on the scope of its works and usually take longer period, hence the inventory period remained high over the years. Further, due to requirement of various deposits such as margin money for bank guarantee and retention money a large part of its working capital remained blocked. Moreover, about 10% of its bill value remain as retention with the customers. However, being an MSME the company get its payments generally within 45 days.

- **Susceptibility to cyclicality in demand from core end-user industries**

The Company operates in the capital good industry which is highly dependent on capital expansion plans of various industries like petrochemicals, refineries, chemicals etc. which cyclical in nature and depends on the industry prospects and growth scenarios.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Adequate

The liquidity position of the company appears to remain adequate in the near term marked by its expected healthy cash accruals vis-à-vis its low near-term debt repayment obligation. The company is expected to earn gross cash accruals in the range of `Rs.8.50-12 crore as against its debt repayment obligation of ~Rs.1 crore during FY22-24. Further, the company has adequate gearing headroom marked by its comfortable capital structure. However, the liquidity of the company is impacted due to its working capital-intensive nature of operation.

About the Company

Airoil Flaregas Private Limited (AFPL, erstwhile Airoil-Flaregas (India) Private Limited) was formed by one Seth family in Technical & Financial collaboration with Airoil Flaregas Ltd. UK in the year 1984. Airoil Flaregas Ltd UK had ~40% shareholding in the share capital of the company, when it sold the entire shares under buy back scheme in the year 2012-13, since then Airoil Flaregas Private Limited is 100% owned by the Indian promoter and their family members. AFPL is engaged in manufacturing, designing and site installation of combustion equipment like Flare system & flare components, industrial burner & burner components, and Spares & accessories; it also supplies spares and accessories for these systems and undertakes Flare system on turnkey contracts. The company manufactures flare system which is used to burn the unwanted gases and prevent those gases from entering in the environment. The flare system is a mandatory requirement as a pollution control measure. It is used in Refineries, Fertilisers Industries, Power Plant, Steel Industries, Petro-chemical units etc. The company's manufacturing facility is in Indrad, Gujarat. The product is tailor made and is made as per the customers requirement. AFPL has one wholly owned subsidiary, Airoil Flaregas International Pte Ltd engaged in trading and acting as market consultant in Singapore and one first level step down subsidiary Green Combustion Ltd in UK engaged in manufacturing of industrial burners, burners spares and burner management system.

Financials (Standalone) **(Rs. crore)**

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	91.26	102.14
EBITDA	8.67	12.01
PAT	3.25	4.33
Total Debt	26.21	30.14
Tangible Net worth	44.83	51.32
Adjusted Tangible Net worth	46.31	50.42
EBITDA Margin (%)	9.50	11.76
PAT Margin (%)	3.46	4.24
Overall Gearing Ratio (x)	0.33	0.43
Interest Coverage Ratio (x)	1.70	2.60

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: NIL

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	25.00	IVR BBB-/ Stable (IVR Triple B Minus with a Stable Outlook)	-	-	-
2.	Bank Guarantee	Long Term	64.50	IVR BBB-/ Stable (IVR Triple B Minus with a Stable Outlook)			
3.	GECL	Long Term	2.50	IVR BBB-/ Stable (IVR Triple B Minus with a Stable Outlook)			
4.	ILC/FLC	Short Term	11.00	IVR A3 (IVR A Three)	-	-	-

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About Infomerics:

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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	Revolving	25.00	IVR BBB-/ Stable
Long Term Bank Facilities - GECL	-	-	Oct 2025	2.50	IVR BBB-/ Stable
Long Term Bank Facilities - Bank Guarantee	-	-	Sept 2025	64.50	IVR BBB-/ Stable
Short Term Bank Facilities- ILC/FLC	-	-	120-180 days	11.00	IVR A3
Total				**103.00**	

Annexure 2: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Airoil-lenders-nov21.pdf

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 4: Complexity level of the rated Instruments/Facilities

Sl. No.	Instrument	Complexity Indicator
1.	Cash Credit	Simple
2.	GECL	Simple
3.	Bank guarantee	Simple
4.	IL/FLC	Simple

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.