April 01, 2022

Clair Engineers Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Cash Credit	15.00	15.00	[ICRA]BB+(Stable); reaffirmed
Long Term: Bank Guarantee	10.00	17.00	[ICRA]BB+(Stable); reaffirmed/assigned
Short Term: Non-Fund based – Letter of Credit	5.00	5.00	[ICRA]A4+; reaffirmed
Total	**30.00**	**37.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings takes into consideration the established track record of Clair Engineers Private Limited (CEPL) in the design and manufacturing of air pollution control equipment and its comfortable order book of ~Rs. 135.84 crore as on March 12, 2022, providing near-term revenue visibility. Further, CEPL has a reputed client base with a track record of repeat business. In the last few years, the company had received vendor accreditation from large integrated steel plants like JSW and Tata steel which supports the growth in the order book. ICRA notes that CEPL manufactures tailor-made engineering products wherein product precision and quality are important, which results in entry barriers for new players.

The ratings are, however, constrained by the volatility in operating margins owing to the fixed-price contracts and soaring raw material prices. CEPL's revenues are expected to increase to Rs. 100 crore in FY2022 from Rs. 44.80 crore in FY2021. However, the overall scale of operations remains modest. The operating margin declined to 5.33% in 11M FY2022 from 8.90% in FY2021, largely due to increased raw material cost. The ratings are also constrained by the tight liquidity and moderate financial risk profile, marked by low net-worth base and average debt protection metrics. The ratings are also constrained by the dependence on the investment cycle of the end-user industries as witnessed in the last few years.

The Stable outlook on the long-term rating reflects ICRA's opinion that CEPL will benefit from its established track record in the designing and manufacturing of pollution control equipment along with its comfortable order book. The proposed enhancement in fund-based working capital limits will support liquidity going forward.

Key rating drivers and their description

Credit strengths

Established track record in supply of air pollution control equipment – CEPL's operations are overseen by its Managing Director Dr. K. Sainath, who has over 30 years of experience in designing and manufacturing air pollution control equipment. The company has a wide product range, including electro-static precipitators (ESPs), pulse jet filter, long bag filter, zero liquid discharge systems etc, which are primarily used in the cement, sugar and steel industries.

Comfortable order book – The order book improved to ~Rs. 135.84 crore as on March 12, 2022 from Rs. 114.82 crore as on March 18, 2021 providing medium-term revenue visibility. Most of the projects are to be executed in less than one year with some of the small orders to be executed within two to three months. The cement and steel segments are the major contributors to the order book. In the last one year, large cement groups like UltraTech and Holcim have incurred capex and CEPL has been able to secure orders for air pollution control equipment from these Groups. In the steel segment, CEPL has added large integrated steel plants like Tata Steel and JSW Steel to its portfolio. Apart from the existing order book, CEPL has active business enquiries from the steel, cement and sugar sectors.

Reputed client base – CEPL has a reputed client base, which includes direct customers such as Dalmia Cements, JSW Steel Ltd, Tata Steel BSL Ltd, Cement Corporation of India (CCI), etc and major OEMs such as Beumer, Loesche India Private Limited, Humboldt Wedag India Private Limited, Gebr. Pfeiffer. The company has established stable relationships with the direct customers as well as key OEMs in the last few years, which is expected to support order book addition and execution over the medium term. Further, it makes tailor-made engineering products, wherein precision and quality remain important for the clients than the price, resulting in entry barriers for new players.

Credit challenges

Modest scale of operations with fluctuating operating margins – CEPL's revenue increased to Rs. 85.66 crore in 11M FY2022 from Rs. 44.80 crore in FY2021 owing to higher execution during the year; however, the overall scale of operations remains moderate. CEPL's revenue declined in FY2021 owing to slow order book execution amid the disruptions caused by the pandemic. Revenue growth in the current fiscal is partly due to the execution of old orders. It also faces volatility in operating margins owing to the fixed-price nature of the contracts. The operating margin declined to 5.33% in 11M FY2022 compared to 8.90% in FY2021, largely due to increased raw material cost.

Moderate financial risk profile – The financial risk profile is moderate with gearing of 2.56 times and TOL/TNW of 5.54 times as on February 28, 2022. The TOL/TNW is higher on account of low net worth base, increased unsecured loans and high trade payables. Further, the coverage indicators were average with total debt/OPBDITA at 6.88 times and interest coverage of 1.71 times in 11M FY2021.

Liquidity position: Stretched

The company's liquidity position is **stretched** as reflected in the high average utilisation of working capital limits at ~91% during the last 12-month period ended January 2022 owing to the high inventory and debtor levels. The company has low cash balances and limited buffer in terms of undrawn working capital limits of Rs. 1.10 crore as on February 28, 2022. However, the company's liquidity was supported in the past with timely enhancement of its limits and funding support from promoters in form of unsecured loans.

Rating sensitivities

Positive factors – ICRA could upgrade CEPL's ratings if there is a healthy growth in revenues and operating margins along with an improvement in the liquidity position on a sustained basis. Specific credit metrics that could lead to an upgrade include interest coverage above 3 times on a sustained basis.

Negative factors – The ratings may witness a downward pressure if there is decline in fresh orders, revenues and operating margins. The ratings may also be impacted if the liquidity position deteriorates further and the interest coverage is less than 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

CEPL was established in 1992 as a proprietary concern by Dr. K. Sainath, a chemical engineer and PhD from IIT, Delhi. The proprietary concern was converted to private limited in 2005. It is in the business of designing, manufacturing, and supplying air pollution control equipment, including electrostatic precipitators, reverse air bag houses, pulse jet bag filters, industrial fans and gas conditioning systems to cement, sugar, power, steel and other process industries and blenders for pharmaceutical industry.

Key financial indicators

	FY 2020	FY 2021	11M FY2022*
Operating Income (Rs. crore)	53.24	44.80	85.36
PAT (Rs. crore)	-3.43	0.51	1.03
OPBDIT/OI (%)	-0.31%	8.90%	5.33%
PAT/OI (%)	-6.44%	1.14%	1.21%
Total Outside Liabilities/Tangible Net Worth (times)	4.34	3.89	5.54
Total Debt/OPBDIT (times)	-164.06	6.57	6.88
Interest Coverage (times)	-0.06	1.39	1.71

*Provisional; *PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="4">Current Rating (FY2023)</th><th colspan="3">Chronology of Rating History for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding (Rs. crore)</th><th>Date & Rating in</th><th>Date & Rating in FY2022</th><th>Date & Rating in FY2021</th><th>Date & Rating in FY2020</th></tr>
<tr><th>Apr 01, 2022</th><th>Apr 07,2021</th><th>-</th><th>Dec 17,2019</th></tr>
<tr><td>1</td><td>Cash Credit</td><td>Long-term</td><td>15.00</td><td>-</td><td>[ICRA]BB+ (Stable)</td><td>[ICRA]BB+ (Stable)</td><td>-</td><td>[ICRA]BB+ (Stable)</td></tr>
<tr><td>2</td><td>Bank Guarantee</td><td>Long-term</td><td>17.00</td><td>-</td><td>[ICRA]BB+ (Stable)</td><td>[ICRA]BB+ (Stable)</td><td>-</td><td>[ICRA]BB+ (Stable)</td></tr>
<tr><td>3</td><td>Letter of Credit</td><td>Short term</td><td>5.00</td><td>-</td><td>[ICRA]A4+</td><td>[ICRA]A4+</td><td>-</td><td>[ICRA]A4+</td></tr>
<tr><td>4</td><td>Unallocated Limits</td><td>Long Term</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>[ICRA]BB+(Stable)</td></tr>
</table>

Amount in Rs. crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund based- Cash Credit	Simple
Long-term Non-Fund based- BG	Very Simple
Short-term Non-Fund based- LC	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, is 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	Cash Credit	--	--	--	15.00	[ICRA]BB+ (Stable)
NA	Bank Guarantee	--	--	--	17.00	[ICRA]BB+ (Stable)
NA	Letter of Credit	--	--	--	5.00	[ICRA]A4+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

For more information, visit www.icra.in

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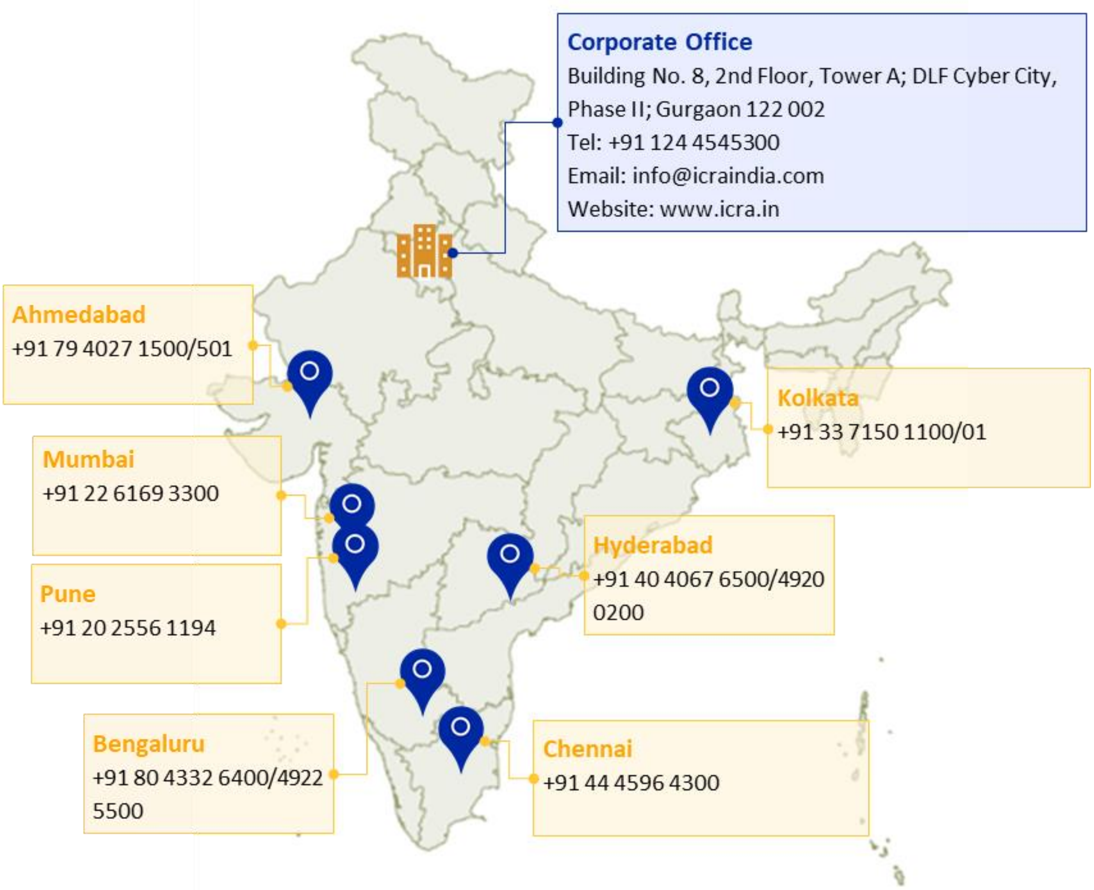

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