

March 29, 2023

Electromech Material Handling Systems (India) Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term /Short Term-Fund Based/Non Fund Based - Others	134.40	134.40	[ICRA]A- (Stable)/[ICRA]A2+; reaffirmed
Long Term /Short Term-Interchangeable - Others	(134.40)	(134.40)	[ICRA]A- (Stable)/[ICRA]A2+; reaffirmed
Total	134.40	134.40	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation continues to factor in the established position of Electromech Material Handling Systems (India) Private Limited (EMHS) in the domestic overhead travelling crane industry, its comfortable financial profile with healthy profitability and return indicators (RoCE of 28.2%) and debt coverage metrics. The ratings note its comfortable order book (OB) position providing adequate revenue visibility and expanding presence in erection and maintenance services, which will support its profitability over the medium term. ICRA takes note of the diversification of EMHS' customer portfolio across various end-user industries, along with increasing geographical diversification in the domestic as well as overseas markets, which mitigates the risk of slowdown in any specific industry or geography. The ratings consider the Group's (viz. EMHS along with its subsidiaries) low external debt (mainly vehicle loans) and strong liquidity position, which along with a prudent working capital management supports its financial risk profile. The customer advances resulted in limited dependency on the external borrowings for working capital purposes, thereby strengthening the overall liquidity position.

The ratings, however, remain constrained by the Group's moderate scale of operations (compared to established and much larger peers in the Construction Equipment industry) and the vulnerability of its profitability to adverse fluctuations in input prices, as most of its orders are fixed price in nature. EMHS remains exposed to the cyclical nature in capital investments by key end-user industries and stiff competition from other large and organised players as well as unorganised players, which limits its pricing flexibility, especially in the lower tonnage cranes segment. Its ability to regularly garner orders amid the competitive market remains important to sustain its scale and profitability. The Group is looking for organic/inorganic growth opportunities, which is expected to further strengthen its brand positioning in the medium to long term. However, a higher-than-expected debt-funded expansion or a change in the business model resulting in reduction in the overall customer advances, which materially impacts its liquidity profile remains a key monitorable.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Group will continue to capitalise on its strong technical expertise and maintain a strong financial profile as well as competitive position in the domestic market, while expanding its footprints in the overseas markets.

Key rating drivers and their description

Credit strengths

Established player in domestic overhead travelling crane industry; technology tie-ups with reputed global players - EMHS is a key player in the domestic overhead crane manufacturing industry, having a significant market share in the organised segment. The company has a technological tie-up with ABUS Crane Systems, Germany and an agreement with Stahl Crane Systems GmbH, Germany, to act as its partner for the 'Ex Range' of Stahl products for the Indian market. Further, its presence (via subsidiary Cranedge India) in providing crane erection and maintenance services, provides it a competitive edge.

Diversified customer portfolio across various industries with increasing geographical diversification - EMHS has a diversified customer profile comprising reputed players in automotive and ancillaries, infrastructure, steel, and general engineering industries. Additionally, it caters to the Middle East and Southeast Asian markets via its step-down subsidiaries in Dubai, UAE and Indonesia, which provides geographical diversification to its revenue streams. A diversified customer base and increasing geographical diversification helps to mitigate the risk of slowdown in any particular industry or geography.

Strong liquidity position with limited long-term debt; working capital largely funded by customer advances - EMHS' liquidity position remains strong, as reflected by cash and liquid investments of ~Rs. 55 crore and minimal long-term debt on books as on March 12, 2023. With no significant debt-funded capital expenditure lined up and a favourable working capital cycle, supported by high customer advances, the Group is expected to continue exhibiting a strong liquidity position.

Credit challenges

Modest scale of operations; timely execution of OB remains critical for revenue and margin expansion – EMHS' scale of operations remains moderate, with consolidated operating income (OI) of Rs. 369.7 crore in FY2022 and Rs. 349.7 crore in 10M FY2023. It reported an order book of ~Rs. 431 crore, translating into an order book/OI ratio of 1.2 times as on March 1, 2023, which provides adequate near-term revenue visibility. A consistent order inflow and timely execution of the order book remains important for revenue and profitability expansion.

Exposure to cyclicity in capital investments by manufacturing companies - The Group's performance remains susceptible to cyclicity in investments by the end-user industries. However, the diversification across varied end-user industries protects the company from slowdown in demand from any specific industry.

Vulnerability of profitability to adverse fluctuations in input prices and intense competition - EMHS' profitability remains susceptible to adverse fluctuations in input prices, given the fixed-price nature of majority of its contracts. Further, the Indian crane industry is largely fragmented with the unorganised sector (catering to lower-sized cranes) accounting for ~40% of the market share. Nevertheless, the company's focus and expanding presence in the high-margin erection and maintenance services business, is expected to support its profit margins over the medium term.

Liquidity position: Strong

EMHS' liquidity position is expected to remain strong with healthy cash accruals, supported by buffer available in working capital limits (~Rs. 60 crore as on January 31, 2023) and free cash and liquid investments on books, aggregating Rs. 55 crore as on March 12, 2023. The Group has marginal debt servicing obligations, and the overall investment outlay is likely to remain around Rs. 10 crore over the next 12-15 months, and will be funded largely by internal accruals. Considering the healthy cash flow from operations and modest capex/investment plans, the company is estimated to generate free cash flows, which will help in keeping the overall liquidity at comfortable levels.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a significant increase in scale and profitability on a sustained basis, along with sustenance of a prudent working capital management, which results in an overall improvement in the financial profile.

Negative factors – The ratings could be downgraded if there is any deterioration in its revenues and profitability, along with any major debt-funded capex or elongation in the working capital cycle, which reduces the liquidity comfort and financial profile. Specific credit metrics affecting the ratings include a TOL/TNW above 1.35 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction Equipment
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has considered the consolidated financials of EMHS. As on March 31, 2022, EMHS had five subsidiaries and five-step down subsidiaries (as per Annexure II).

About the company

Electromech Material Handling Systems (India) Private Limited (EMHS) is involved in the design, manufacturing, installation, and servicing of electric overhead travelling (EOT) cranes (single girder and double girder), gantry cranes, jib cranes, underslung cranes, wire rope hoists, forklifts and customised material handling solutions for shop floor applications. The company was incorporated in May 1996 and started operations in December 2004. EMHS has its sole manufacturing facility at Pirangut, near Pune (Maharashtra). At present, it has a total installed manufacturing capacity of 2,000 cranes annually.

EMHS set up a 100% subsidiary, Cranedge, in January 2010, which acts as a service agent for EMHS for its erection and commissioning work as well as provide such services to other players in the industry. The company has set up a ~100% subsidiary in Mauritius, which in turn has set up a wholly owned subsidiary in Dubai (Electromech FZE) that acts as a trading office for EMHS and as a service agent to the foreign customers of EMHS. Additionally, in FY2019, the Mauritius entity has set up a wholly-owned subsidiary in Indonesia (PT Electromech Indonesia) to cater to the clients in Southeast Asia.

Key financial indicators (audited)

Consolidated	FY2021	FY2022	10M FY2023*
Operating income	277.4	369.7	349.7
PAT	18.2	25.9	39.6
OPBDIT/OI	9.8%	11.6%	12.2%
PAT/OI	6.6%	7.0%	-
Total outside liabilities/Tangible net worth (times)	1.2	1.1	-
Total debt/OPBDIT (times)	0.5	0.5	-
Interest coverage (times)	9.0	13.1	27.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore ; *Unaudited provisional results

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Feb 28, 2023 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Mar 29, 2023	Dec 31, 2021	Dec 17, 2020	Dec 31, 2019
1 Long Term /Short Term - Fund Based/Non Fund Based - Others	Long-term and short-term	134.40	--	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]BBB+(Stable)/[ICRA]A2	[ICRA]BBB+(Stable)/[ICRA]A2
2 Long Term /Short Term - Interchangeable- Others	Long-term and short-term	(134.40)	--	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]BBB+(Stable)/[ICRA]A2	[ICRA]BBB+(Stable)/[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term – Fund-based / Non-fund Based	Simple
Long-term/Short-term – Interchangeable	Not applicable

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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term /Short Term - Fund Based/Non Fund Based - Others	NA	NA	NA	134.40	[ICRA]A-(Stable)/[ICRA]A2+
NA	Long Term /Short Term - Interchangeable-Others	NA	NA	NA	(134.40)	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Cranedge India Private Limited	100%	Full Consolidation
Electromech Infrastructure Equipment Pvt. Ltd.	100%	Full Consolidation
Electromech Overseas	100%	Full Consolidation
Electromech Lift Trucks Private Limited	100%	Full Consolidation
Nebbiolo Solutions LLP	100%	Full Consolidation
Electromech FZE	100% (Step-down subsidiary)	Full Consolidation
Electro Mech Equipment Trading LLC	100% (Step-down subsidiary)	Full Consolidation
PT Electromech Material Handling	100% (Step-down subsidiary)	Full Consolidation
PT ElectroMech Manufacturing Industries	100% (Step-down subsidiary)	Full Consolidation
ElectroMech Industry Company	100% (Step-down subsidiary)	Full Consolidation

Source: Company Annual Report FY2022

Note: Electromech Lift Trucks Private Limited and ElectroMech Industry Company have been incorporated in FY2022

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About ICRA Limited:

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Branches



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