August 07, 2024

# Tempsens Instruments (I) Pvt. Ltd.: Rating upgraded to [ICRA]A and outlook revised to Stable; rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long term – Fund based - Cash credit** | 30.50 | 42.00 | [ICRA]A; upgraded from [ICRA]A-; outlook revised to Stable from Positive and assigned for enhanced amount |
| **Long term – Non-fund based - Bank guarantee** | 18.00 | 20.00 | [ICRA]A; upgraded from [ICRA]A-; outlook revised to Stable from Positive and assigned for enhanced amount |
| **Long term - Unallocated limits** | 4.50 | 38.00 | [ICRA]A; upgraded from [ICRA]A-; outlook revised to Stable from Positive and assigned for enhanced amount |
| **Total** | **53.0** | **100.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The upgrade of the long-term rating of Tempsens Instruments (I) Pvt. Ltd. (TIPL/company) takes into account the continuous improvement in its business performance over the last 4-5 years, which is expected to be sustained over the medium term. The revenues reported a CAGR of ~24% over the last 4 years, increasing to ~Rs. 279 crore in FY2024 from ~Rs. 118 crore in FY2020. The revenues are likely to further increase in FY2025 on the back of an expected growth in the existing product segments, namely thermocouples/thermowells, pyrometers, cables and conductors, as many new projects are likely to come up in India in the near to medium term, especially in the power (nuclear power), oil & gas and cement sectors. Moreover, the revenue inflow from the new heater segment following the merger of a group entity Marathon Heater (I) Private Limited (MHPL) with TIPL is seen to boost the topline. Also, the revenue from pyrometers is expected to increase as MHPL has acquired a 50.01% stake in another group company, Accurate Sensors Technologies (AST), which manufactures pyrometers. Further, low dependence on external debt and healthy accruals are expected to maintain the company's healthy financial risk profile.

The rating also draw comfort from the experience of TIPL's promoters of more than 40 years in thermal engineering solutions. The rating considers TIPL's strong market position in heat-resistant devices for the glass industry as well as for the cement, steel and power sectors, resulting in stable relationships with some reputed customers. The rating also favourably factors in the company's large client base that ensures a diversified revenue stream across multiple end-user industries, lowering the customer concentration risk.

The rating is, however, constrained by intense competition in the export market, which has led to modest growth in exports. To address this challenge, TIPL's management has devised strategies to expand globally. They plan to establish assembly units in the international markets and pursue acquisitions as part of their growth strategy. ICRA also factors in the high working capital intensity in the business on account of the elongated receivables and the high inventory holding requirement. However, ICRA notes that the company's healthy cash accruals have helped fund its working capital requirements.

The Stable outlook on the long-term rating reflects ICRA's expectation that TIPL is likely to sustain its operating metrics. Further, the outlook underlines ICRA's expectation that the entity's incremental capex/acquisitions, aimed at expanding the product portfolio, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

## Key rating drivers and their description

### Credit strengths

**Strong market position for heat-resistant devices –** Over the years, TIPL has served as a qualified vendor for heat-resistant devices for various clients and continues to get repeat business. The company has an established track record of over four decades in manufacturing a broad range of thermal engineering products, which find application across industries like glass, chemicals, power, nuclear etc. It draws support from the professional and technically qualified management that has considerable experience in the field. This is evident from the healthy revenue growth in the last four-year period ended FY2024, driven by the huge replacement demand for such products.

**Low geographic and customer concentration risks –** TIPL has a large client base that ensures a diversified revenue stream across multiple end-user industries, resulting in low customer concentration risk. The top 10 customers contributed to ~22-25% of the revenues in the last two fiscals. TIPL and its promoters have entered into joint venture arrangements in foreign countries and are focusing on similar JVs/acquisitions abroad in order to increase exports. TIPL already has JVs in the UAE, Germany and Indonesia.

**Healthy financial risk profile –** TIPL has maintained healthy operating margins and accruals in the past. In FY2024, the operating margins improved to 20.6% vis-à-vis 18.9% in FY2023. The company's absolute OPBDITA achieved a healthy growth of 25% in FY2024 compared to the previous year, primarily due to the increase in scale. TIPL has planned capital expenditure (capex) over the next fiscal for enhancing its conductor capacity as well as for the new unit in the heater segment under MHPL.

The company's financial risk profile remains healthy, supported by a strong net worth base of Rs. 178.0 crore as on March 31, 2024. Additionally, the company's financial risk profile is enhanced by the absence of long-term debt and minimal reliance on short-term borrowings. These factors contribute to comfortable leverage and healthy debt coverage indicators, reflected in interest coverage of 27.1 times, TD/OPBDITA of 0.5 times and DSCR of 22.1 times in FY2024 (provisional). The financial risk profile is expected to remain comfortable over the medium term.

### Credit challenges

**Exposure to competition in export market –** The company operates in the niche segment of heat treatment and electrical heating. The steady demand, given the consumable nature of the product, has resulted in low entry barriers. Further, stiff competition and the prerequisite of having local presence in the export market has resulted in modest export growth. However, ICRA notes that the company registered a healthy growth of ~15% in FY2024, led by a change in the product mix towards value-added thermal heating products where the realisation was high and the increase in sales in the cable and conductor segment. Further, the company is in the process of increasing its conductor capacity and set up a new unit in the heater segment under MHPL. This expansion, along with the expected increase in export sales, is expected to scale up the company's revenues. The margin remains exposed to commodity price fluctuation risk, though the management tries to mitigate the risk by procuring order-backed inputs.

**High working capital intensity –** The working capital intensity of the business was high at ~34.8% in FY2023 and 33.6% in FY2024 on account of the elongated collections and high inventory holding requirement. However, ICRA notes that the company's healthy accruals have resulted in minimal external debt to fund its working capital requirements.

## Liquidity position: Adequate

The liquidity position of TIPL is adequate on account of healthy cash generation and absence of any long-term repayment obligations. Besides, the company has cushion available in the working capital limits with average utilisation of ~31% of its sanctioned limits (of Rs.42 crore) as of June 2024 and cash and bank balance of Rs. 15.5 crore as on March 31, 2024 (~Rs. 12.50-crore fixed deposits and ~Rs.1-crore as cash-in-hand).

## Rating sensitivities

**Positive factors –** ICRA could upgrade TIPL's rating if the company is able to increase its scale while maintaining healthy profitability and debt protection metrics and a strong liquidity profile.

**Negative factors –** A substantial decline in the scale of operations or weakening in profitability, leading to a deterioration in the key credit metrics, may lead to a downgrade. Any large debt-funded capex/acquisition or a stretch in the working capital cycle adversely impacting the liquidity profile and other key credit metrics may also result in a downgrade. A specific trigger that may lead to a downgrade is TOL/TNW of 1.2 times or above on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | To arrive at the ratings, ICRA has considered the consolidated financials of TIPL along with its two group entities, which are listed in Annexure-II |

## About the company

TIPL offers solutions for thermal engineering, like manufacturing temperature sensors — thermowells, thermocouples and control - and instrumentation cables for process equipment in various industrial applications. The company, which is a part of the Pyrotech Group, has been promoted by Mr. V.P. Rathi, Mr. P.S Talesera, Mr. C.P Talesera and Mr. N. K. Pandey since 1976. The products find application in various industries like cement, power, steel, pharmaceuticals, glass, chemicals and fertilisers, petrochemicals and auto industries. TIPL caters to the requirements of more than 4,000 customers in India and abroad.

Marathon Heater (India) Private Limited (MHPL) is a group entity which is to be merged with TIPL w.e.f April 01.2024. MHPL is into the business of production of heaters since 2007. The major products for MHPL include process heaters (circulation heater, duct heater, screw plug heater etc.), component heaters (cartridge heater, coil heater, strip heater etc.) and furnace heaters etc. In FY2024, MHPL bought a 50.01% stake in another group company – Accurate Sensors Technologies (AST). AST was founded in 1994 for non-contact temperature measurement solutions for aluminium surfaces with low, unstable and variable emissivity characteristics. The product portfolio includes infrared pyrometers, thermal imagers, furnace monitoring systems and black body furnaces for processes industries like steel, aluminium, cement, glass, and non-metals and various R&D applications.

### Key financial indicators (audited)

| | FY2023 | FY2024* |
|---|---|---|
| **Operating income** | 242.0 | 278.8 |
| **PAT** | 31.5 | 39.6 |
| **OPBDIT/OI** | 18.9% | 20.6% |
| **PAT/OI** | 13.0% | 14.2% |
| **Total outside liabilities/Tangible net worth (times)** | 0.5 | 0.4 |
| **Total debt/OPBDIT (times)** | 0.6 | 0.5 |

| | | |
|---|---|---|
| **Interest coverage (times)** | 23.6 | 27.1 |

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; 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

| | | | | | Chronology of rating history for the past 3 years | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | FY2025 | | FY2024 | | FY2023 | | FY2022 | |
| Instrument | Type | Amount rated (Rs Crore) | Date | Rating | Date | Rating | Date | Rating | Date | Rating |
| **Cash credit** | Long term | 42.00 | Aug 07, 2024 | [ICRA]A (Stable) | Jun 06, 2023 | [ICRA]A- (Positive) | Aug 23, 2022 | [ICRA]A- (Positive) | Jun 17, 2021 | [ICRA]A- (Stable) |
| **Bank guarantee** | Long term | 20.00 | Aug 07, 2024 | [ICRA]A (Stable) | Jun 06, 2023 | [ICRA]A- (Positive) | Aug 23, 2022 | [ICRA]A- (Positive) | Jun 17, 2021 | [ICRA]A- (Stable) |
| **Unallocated limits** | Long term | 38.00 | Aug 07, 2024 | [ICRA]A (Stable) | Jun 06, 2023 | [ICRA]A- (Positive) | Aug 23, 2022 | [ICRA]A- (Positive) | Jun 17, 2021 | [ICRA]A- (Stable) |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long term – Fund based - Cash credit** | Simple |
| **Long term – Non-fund based - Bank guarantee** | Very Simple |
| **Long term - Unallocated limits** | 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 – Fund based - Cash credit | NA | NA | NA | 42.00 | [ICRA]A (Stable) |
| NA | Long term – Non-fund based - Bank guarantee | NA | NA | NA | 20.00 | [ICRA]A (Stable) |
| NA | Long term - Unallocated limits | NA | NA | NA | 38.00 | [ICRA]A (Stable) |

*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 |
|---|---|---|
| Marathon Heater (I) Private Limited (MHPL) | To be merged* | Full Consolidation |
| Accurate Sensors Technologies (AST) | 50.01%^ | Full Consolidation |

*****TIPL currently holds 15.55% in MHPL. MHPL would be merged into TIPL w.e.f April 01,2024 and application has already been filed with NCLT for the merger. ^MHPL currently holds 50.01% in AST and post amalgamation, TIPL would hold 50.01% in AST.*

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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.

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