



September 22, 2010

ICRA re-affirms the LA- and A1 ratings for bank facilities of International Combustion (India) Limited

ICRA has reaffirmed the LA- (pronounced L A minus) rating to the Rs.12.25 crore¹ fund based limits and the Rs.21.00 crore non-fund based limits of International Combustion (India) Limited (ICIL)[†]. The outlook on the long-term rating is stable. ICRA has also reaffirmed the A1 (pronounced A one) rating to the Rs.10.00 crore (enhanced from Rs 4 crore) fund based sub-limits and the Rs.5.00 crore non-fund based sub-limits of ICIL.

The ratings reflect the healthy financial profile of ICIL, characterised by a conservative capital structure, healthy profitability, comfortable levels of debt coverage indicators; a substantial cash balance and liquid investments that provide adequate liquidity backup. ICRA however notes that ICIL's operating profitability has shown a declining trend in the last three years primarily on account of increasing proportion of standard products from the gear division, which in turn has adversely affected the company's return on capital employed. The company has an established and proven track record in the engineering/material handling equipment segment as well as the industrial gear/gear drives segment. The company has a diversified and reputed client base, which reduces counter party risks to an extent. Moreover, technology tie-ups with leading global players enhance the competitive position of the company. Recent tie-ups for manufacturing crushers would result in an expansion of the product portfolio of the company enabling it to provide end to end solutions, in material handling and classification, to its customers. In addition, the current order book of around Rs 56 crore as on 31st March, 2010 provides revenue visibility to an extent.

The ratings also reflect the fact that scale of the company's operations remains moderate, which is likely to restrict the benefits of economies of scale. Additionally, the high sales concentration to the steel sector exposes the company's revenues and cash flows to the cyclicity associated with the steel industry. ICRA also notes that the majority of the contracts that ICIL enters into are fixed-price in nature; hence any adverse movement in raw material prices is expected to adversely impact its profitability. The industry is also characterised by intense competition from the unorganized segment as well as large organised players in the industry, especially from players engaged in project management, and also from multi-nationals entering the segment. ICRA believes that this would limit the scope of margin expansion for the company going forward. While reaffirming the ratings, ICRA has also noted the current legal issues involving the Chairman of the company, who has been arrested in connection with an accident in a building in Kolkata. ICRA will continue to monitor the situation and will evaluate the impact of any material development in this regard on the business risk profile of the company.

Company Profile

ICIL is engaged in the manufacture of Mineral & Material Processing and Handling Equipment (MHE) and Gear Box and Geared Motor Drive System (Gears). Incorporated in 1936, the company commenced trading operations as a wholly-owned subsidiary of International Combustion, U.K. The company forayed into manufacturing in 1961. The company's manufacturing facilities are located across Baidyabati (West Bengal), Nagpur and Aurangabad (Maharashtra).

Recent Results

For the year ended 2009-10, the company reported a net profit after tax of Rs 11.96 crore on net sales of Rs 96.99 crore. The company reported an estimated profit after tax of Rs 1.38 crore on net sales of Rs 19.18 crore for the first quarter of FY 2011.

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¹100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

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Disclaimer: ICRA Ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA Ratings are subject to a process of surveillance, which may lead to revision in ratings. Please visit our website (www.icra.in) or contact any ICRA office for the latest information on ICRA Ratings outstanding.



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ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex".
The classification of instruments according to their complexity levels is available on the website www.icra.in

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