January 19, 2023

Phoenix Conveyor Belt India (P) Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term/Short Term - Non-Fund based Limits – Bank Guarantee/ Letter of Credit	131.00	131.00	[ICRA]A+ (Stable)/[ICRA]A1+; reaffirmed
Total	**131.00**	**131.00**	

Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation considers Phoenix Conveyor Belt India (P) Limited's (PCBIPL) conservative capital structure, its debt-free position as on date and a large cash balance, which provide considerable financial flexibility. The ratings also consider the estimated improvement in financial performance in CY2022, on the back of healthy revenue growth and better operating margin compared to subdued performance reported in CY2021. The execution of value-added products commanding price premium and incorporation of the price-variation (PV) clause in long lead-time contracts also supported the margins in CY2022.

The ratings also factor in PCBIPL's dominant position in the domestic conveyor belt industry, its reputed customer base comprising players from various end-user industries, which mitigates the counterparty risk to an extent, and the company's strong parentage for being a part of the Continental Group, which benefits it in terms of access to better technology as well as sourcing raw material. While assigning the ratings, ICRA has considered the rating of the company's ultimate parent, Continental AG, which stands at Baa2 (Stable), assigned by Moody's.

The ratings, however, continue to be constrained by the intense competition in the traditional conveyor belt industry, which keeps margins of all players, including PCBIPL, under check. The company's profits also remain susceptible to the volatility in the prices of rubber and steel, its key raw materials, with sharp fluctuations impacting the performance. The same had impacted the performance in CY2021. In CY2022, while raw material prices continue to remain high, focus on high margin products and inclusion of the PV clause supported the performance in CY2022. ICRA also notes that the scale of operations remained small in the last several years and its margins also remained volatile. With changes in the business strategy towards executing projects in the niche segment, the margins have improved in CY2022. Going forward, with focus on higher value-added products, the margins are expected to remain stable and comfortable.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that PCBIPL will continue to benefit from its established brand, track record of operations, product portfolio and strong parent support in the conveyor belts manufacturing business.

Key rating drivers and their description

Credit strengths

Dominant position in the domestic conveyor belt industry; support from parent further strengthens market position - PCBIPL is involved in the conveyor belt manufacturing business. The company's product portfolio consists of steel cord reinforced (SR) and textile reinforced (TX) conveyor belts. SR belts contributed around 69% to its revenues in CY2021 and 9M CY2022, while TR belts contributed around 29% and the balance was by splicing materials. It is one of the dominant players in the steel cord reinforced conveyor belt segment in India. The company is a 100% step-down subsidiary of Continental AG (rated at Baa2, Stable by Moody's), and derives benefits in the form of technical know-how and raw material sourcing support provided by its parent.

Reputed customer base from OEMs and replacement market segments – The conveyor belts manufactured by the company find application in sectors that require handling bulk material including mining, power, steel, cement and ports. Therefore, the primary customers of the company include reputed players from these industries. While the initial requirement for the belt usually originates at the time of project execution, considerable replacement demand also exists as the belts have an average life of around three to five years. However, ICRA notes that PCBIPL is exposed to the overall economic cycles as most of the user industries are cyclical in nature.

Conservative capital structure with substantial cash balance – PCBIPL is a debt-free company and maintains a healthy cash/bank balance of around Rs. 170 crore as on date. The healthy cash/bank balance provides strong financial flexibility to the company. As the normal capex is expected to be funded by internal accruals, PCBIPL is likely to remain debt free over the near term as well. The cash balance also supports the entity to provide a slightly elongated credit cycle to its customers.

Focus on higher value-added products boosts overall margins – Since the middle of CY2018, PCBIPL shifted its strategy and focussed more on the niche segment of products like, pipe conveyor, side-wall conveyor, heat-resistant belt, heavy-duty tunneling belt, etc., where margins are relatively higher than conventional belts. The basic objective is to look for profitable orders where competition is less, rather than increasing the top-line. While the performance was impacted in CY2021 owing to the adverse raw material fluctuations, the shift in strategy resulted in healthy profits in CY2022. The company also plans to grow in the service business – supervision for jointing and splicing, digital services (like scanning devices with data analytics) and service materials.

Credit challenges

Small scale of operations over the past few years, however, margins improved owing to high value-added products - PCBIPL's operating income and margins continued to be volatile over the past several years primarily on the back of declining sales volumes and adverse fluctuations in raw material costs.

In CY2021, the company reported revenue of ~Rs. 248 crore and an OPM of ~7%. The increase in raw material costs primarily resulted in lower margins compared with CY2020. To improve the same, PCBIPL had started incorporating the price-variation clause in all new contracts with long lead time from H2 CY2021, which, along with stronger focus on higher value-added products commanding premium, resulted in significant improvement in margins in CY2022. The sustenance of the healthy margins will remain a key monitorable.

Moderate order book on an absolute basis - PCBIPL has an outstanding order book of around six to seven months as of October 2022. ICRA notes that the company's moderate order book position leads to limited revenue visibility in the near term.

Susceptibility of profits to volatility in prices of input materials - The prices of raw materials namely, steel, rubber and carbon black witness high volatility. Rubber is one of the major raw materials, besides steel cord and textile/ fabric, for manufacturing conveyor belt, which constitutes around 40% of the company's total raw material costs. The company uses most of its total requirement from synthetic rubber and the balance from natural rubber. The adverse movements of raw materials impacted margins in CY2021. The company also enters a price variation clause (PVC) in contracts with long lead time to protect its margins.

Liquidity position: Strong

In view of surplus cash/bank balance, and absence of any major capital expenditure plan and long-term debt service obligations, ICRA expects the overall liquidity position of PCBIPL to remain strong, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade PCBIPL's ratings, if any significant improvement in the company's scale of operations and profitability, results in healthy cash accruals, on a sustained basis.

Negative factors – Pressure on PCBIPL's ratings may arise, if there is any sustained deterioration in financial performance, and/or if there is an increase in working capital intensity of operations and/or any large dividend outflow, adversely impacts the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered standalone financial statement of PCBIPL

About the company

Phoenix Conveyor Belt India (P) Limited (PCBIPL, formerly known as Phoenix Yule Limited) was incorporated in 1998 as a 74:26 joint venture (JV) between Phoenix AG (a part of Continental AG) and Andrew Yule & Company Limited (AYCL). The company became a 100% subsidiary of ContiTech Transportbandsysteme GmbH (formerly known as Contitech AG (a part of Continental AG) after AYCL sold off its stake to ContiTech Transportbandsysteme GmbH in 2009. With its plant at Kalyani in West Bengal, PCBIPL is one of the largest manufacturers of steel cord conveyor belts.

Key financial indicators

Standalone	CY2020 (A)	CY2021 (A)
Operating income	226.25	248.52
PAT	15.75	9.79
OPBDIT/OI	10.55%	6.70%
PAT/OI	6.96%	3.94%
Total outside liabilities/Tangible net worth (times)	0.26	0.23
Total debt/OPBDIT (times)	0.00	0.00
Interest coverage (times)	36.72	32.04

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Jan 19, 2023	Dec 27, 2021	Dec 03, 2020	Jul 31, 2019
1	**Overdraft/ Bill Discounting**	Long term/ short term	-	-	-	-	-	**[ICRA]A+ (Stable)/ [ICRA]A1+**
2	**Bank Guarantee/ Letter of Credit**	Long term/ short term	131.00	-	**[ICRA]A+ (Stable)/ [ICRA]A1+**	**[ICRA]A+ (Stable)/ [ICRA]A1+**	**[ICRA]A+ (Stable)/ [ICRA]A1+**	**[ICRA]A+ (Stable)/ [ICRA]A1+**

Amount in Rs. Crore
Source: Phoenix Conveyor Belt India (P) Limited

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/Short Term - Non-Fund based Limits – Bank Guarantee/ Letter of Credit	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 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	Bank Guarantee/ Letter of Credit	-	-	-	131.00	[ICRA]A+ (Stable)/[ICRA]A1+

Source: Phoenix Conveyor Belt India (P) Limited

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 71501100
jayanta@icraindia.com

Priyesh Ruparelia
+91 33 71501111
Priyesh.ruparelia@icraindia.com

Summit Jhunjhunwala
+91 33 7150 1111
summit.jhunjhunwala@icraindia.com

Tanmay Chhaparia
+91 33 71501100
Tanmay.chhaparia@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches