

February 20, 2025<sup>(Revised)</sup>

## Indag Rubber Limited: Ratings reaffirmed; outlook revised to Negative from Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	4.00	4.00	[ICRA]A(Negative); reaffirmed and outlook revised to Negative from Stable
Short-term Unallocated	0.50	0.50	[ICRA]A1; reaffirmed
Short-term – Non-fund Based Bank Guarantee	38.50	38.50	[ICRA]A1; reaffirmed
<b>Total</b>	<b>43.00</b>	<b>43.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The outlook on the long-term rating of Indag Rubber Limited (Indag/company) has been revised to Negative from Stable, following weaker-than-expected revenue and continued elevated raw material costs in the current fiscal, which led to contraction in its operating margins to 1.2% in 9M FY2025 from 7.1% in FY2024. The company witnessed a revenue decline of ~9% in 9M FY2025 on account of lower-than-expected State Transport Corporation (STC) business. The volume, along with the pressure on profitability, resulted in a deterioration in the company's financial performance. ICRA expects the performance of the company to remain subdued in the near term.

The ratings continue to factor in the company's strong brand and its market presence in the organised retreading segment, aided by a pan-India distribution network of dealers, retreaders and fleet owners. Its professional management, supported by an experienced promoter group, also provides comfort. The company's financial risk profile is characterised by a comfortable capital structure and coverage indicators, led by its debt-free status and healthy liquidity profile at a standalone level. ICRA notes the recent investment made by IRL in its 51% subsidiary, Millenium Manufacturing Services Private Limited (Millenium), which is involved in contract manufacturing of power conversion systems (PCS). Following this investment, ICRA has revised its approach to consolidated, as the company is expected to reflect the credit risk profile more accurately. While IRL is expected to diversify its revenue stream with the full-fledged commencement of operations in Millenium, the execution and project risks persist.

The ratings remain constrained by IRL's current modest scale of operations. While the scale is expected to improve at a consolidated level in the medium to long term, it remains dependent on timely commencement and healthy ramp-up of operations at its subsidiary. The modest scale of operations at a standalone level is further accentuated by the fragmented nature of the industry. Further, profitability has contracted in the current fiscal owing to elevated levels of input prices, particularly natural and synthetic rubber. The company's profit margins continue to remain vulnerable to fluctuations in raw material prices with IRL's limited ability to pass on the rise to its end-customers mainly because of competition from the unorganised sector and various OEMs with retreading verticals. Further, in the current fiscal, the adverse impact of profit margins has been more pronounced given the revenue reduction in the STC segment. While the industry has witnessed intense competition from imported tyres in the past, the import levels have been low at present, mitigating the risk to a certain extent. Going forward, a further material investment in any other joint venture or Millenium, resulting in a deterioration in its liquidity, or any major debt addition at a consolidated level and its impact on the credit profile will be the key rating factors.

## Key rating drivers and their description

### Credit strengths

**Established presence and track record in retreading industry as well as pan-India distribution network** – IRL is an established player in India's tyre retreading business and has a strong presence through a wide network of retreaders and distributors. Through its plant in Nalagarh, Himachal Pradesh, IRL caters to the entire country with its strong brand, Indag. IRL can leverage its established market presence and strong value in the organised segment, as well as its technical know-how, to increase its scale as the demand scenario improves. Further, IRL's increased focus on exports augurs well for its business prospects going forward.

**Extensive experience of promoters** – IRL's promoters have been associated with the manufacturing of tyre-retreading materials since 1978. Initially, the business was a joint venture (JV) with Bandag Corporation, US. The JV was terminated on March 1, 2006, as the Khemka Group took over Bandag's shareholding. The Khemka Group has interests in varied businesses like renewable energy (wind and solar), among others. IRL has recently diversified into contract manufacturing of PCS, which may provide additional avenues to scale up going forward.

**Strong capital structure and coverage metrics with healthy liquidity** – At a standalone level, the company has remained debt-free over the last several years. Consequently, IRL's capital structure and coverage metrics remain comfortable at a standalone level. Going forward, Millenium is expected to raise debt to bridge its working capital gap once commercial operations commence. Despite additional debt, IRL's capital structure and coverage indicators are expected to remain comfortable at the consolidated level. Further, IRL is expected to continue maintaining strong liquidity, which lends comfort.

**Diversification towards renewable energy through investment in subsidiary provides revenue visibility; however, execution and project risks persist** – Since its inception, the company had a single revenue source from manufacturing and sales of retreading materials. As a result, its scale continued to be modest, given the limited size of the industry and the significant presence of unorganised players. Nevertheless, IRL has maintained its revenue base and grew significantly in FY2023 and FY2024 amid favourable demand witnessed in the market. However, some moderation has been witnessed in the current fiscal as revenue has declined by ~9% in 9M FY2025 to Rs 173.4 crore from Rs. 189.9 crore in 9M FY2024. Further, IRL forayed into the energy space in FY2024 through an investment of Rs. 11 crore in its subsidiary, which will undertake contract manufacturing of PCS for one of the largest global companies in this space. The diversification augurs well for IRL and is expected to support the company's scale of operations, which remained range-bound for the past several years. However, the project and the execution risks persist.

### Credit challenges

**Modest scale of operations; may improve owing to efficient execution of operations in Millenium** – The retreading industry has various unorganised players, which impact IRL's growth potential to an extent. The retreading industry witnessed an uptrend and IRL recorded a revenue growth of ~46% in FY2023 on the back of stable demand for replacement tyres. The growth sustained in FY2024 as well, albeit at a much gradual pace, given a higher base. However, the revenues declined by ~9% in 9M FY2025 on a YoY basis due to reduced STC business. While IRL's scale at a standalone level continues to remain modest, the company is expecting to scale up its revenues significantly with the recent diversification through its subsidiary. However, timely commencement and ramp-up of operations at its subsidiary will be important.

**Contraction in margins owing to elevated raw material prices** – IRL remains exposed to raw material price fluctuation risks. IRL has been able to only partly pass on the raw material price increases amid stiff competition. Therefore, any adverse movements in raw material prices directly impact IRL's profitability. In 9M FY2025, the operating profit margins (OPM) declined to 1.2% from 7.1% in 9M FY2024, owing to elevated prices of key raw materials such as natural rubber. Going forward, the company's margin may remain under pressure in the near term.

**Competition from unorganised players persists** – The industry is highly unorganised with a sizeable portion of retreading executed by small-sized regional players. With several small players in the field as well as several tyre OEMs setting up

retreading verticals, IRL encounters stiff competition. However, IRL's strong brand and track record lend it a competitive advantage.

## Environmental and Social Risks

**Environmental considerations** – IRL does not face any major physical climate risk. It recognises quality and productivity as prerequisites for its operations and has implemented ISO 9001:2015 and ISO 14001:2015 standards. The company promotes itself as a Green Company, as retreading prevents landfill waste and pollution caused by the incineration of discarded tyres. Further, retreading promotes sustainability and reusability, reducing carbon footprint. The company provides an alternative to tyres, which utilises higher crude oil and carbon content than retreading materials. IRL does not generate any significant waste. The waste produced is generally sold as scrap. Several anti-pollution systems are fully installed and operational, and the company makes continuous efforts to protect the environment.

**Social considerations** – IRL undertakes various social activities to improve the lives of the local community as a part of its corporate social responsibility (CSR). At present, the company is associated with the Nabha Foundation where the company's annual budget is Rs. 25 lakh for imparting education through five Navi Disha and MGK schools. This apart, IRL has an allocated budget of Rs. 8.7 lakh towards promotion of agriculture, enterprise development, dairy farming, health and sanitisation. IRL also provides economic assistance to the socio-economically disadvantaged, infrastructure development and other activities specified under the Companies Act, 2013. The company also follows a nomination and remuneration policy for motivating its manpower.

## Liquidity position: Strong

The liquidity position of the company is strong, supported by healthy liquid investments of ~Rs. 72 crore as on March 31, 2024. In addition, the company has fully unutilised cash credit limits of Rs. 4 crore, which further aid in its liquidity position. IRL has neither any long-term debt repayment obligation nor any planned major capex in the medium term, which also negates any near-term funding requirements. Going forward, any further funding support to its subsidiary, resulting in a deterioration in its liquidity, will remain a key rating monitorable.

## Rating sensitivities

**Positive factors** – The outlook may be revised to stable if there is a revival in the business in terms of both revenues and profitability while maintaining the company's liquidity. The ratings might be upgraded, if there is any substantial improvement in its scale of operations. Additionally, RoCE above 15% on a sustained basis, along with improved working capital intensity, may trigger ratings upgrade.

**Negative factors** – The ratings might be downgraded in case of a sharp deterioration in revenues and earnings leading operating margin below 6%. Further, a stretch in working capital intensity or incremental dividend payout and long-term investments in Group companies/JVs/Millennium, resulting in weakening liquidity with depletion in free liquidity below Rs. 40 crore, may also trigger a downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Auto Components</a>
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of IRL. The list of companies consolidated have been mentioned in Annexure-II. Earlier, ICRA used to review the standalone financials of the company. However, in FY2024, IRL had invested in its 51% subsidiary, Millenium. While the standalone business remains the principal driver for the Group's financial profile as of now, in ICRA's opinion, the company's consolidated financials, along with the inclusion of the subsidiary, will reflect the credit risk profile more accurately. As a result, ICRA has revised its rating approach to analyse its consolidated business and financial profiles, as it is more representative of IRL's credit profile.

## About the company

Indag Rubber Limited was incorporated in July 1978 as a JV between the Khemka Group and Bandag Inc, US, one of the biggest players in the US retreading industry. In 2006, the Khemka Group took over Bandag's shareholding. The company provides retreading materials ranging from pre-cured retreaded rubber strips to other retreading accessories like envelopes. IRL uses the cold cure technique to manufacture retreading materials. The company's processes are ISO 9001-2008-certified and its products are tested at multiple stages to ensure superior quality. Its manufacturing facility is in Nalagarh, Himachal Pradesh.

IRL has recently invested in its 51% subsidiary, Millenium, which is involved in contract manufacturing of PCS for a reputed global company. The remaining 49% has been invested by Sun Renewables WH Private Limited and Elcom Innovations Private Limited. IRL will be investing Rs. 11.1 crore in the venture over a period of two years.

### Key financial indicators (audited/provisional)

Consolidated	FY2023	FY2024	9M FY2025*
Operating income	243.9	251.2	169.8
PAT	13.8	15.6	6.8
OPBDIT/OI	5.7%	6.6%	2.2%
PAT/OI	5.4%	6.2%	4.0%
Total outside liabilities/Tangible net worth (times)	0.2	0.2	-
Total debt/OPBDIT (times)	0.5	0.6	-
Interest coverage (times)	42.1	23.5	-

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:** A member of the Board of Directors of ICRA Limited is also an Independent Director on the Board of Directors of Indag Rubber Limited. This Director was not involved in any of the discussions and processes related to the rating of the instrument(s) mentioned herein.

## Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2025		Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Feb 20, 2025	May 08, 2024			
1 Cash Credit	Long Term	4.00	4.00	[ICRA]A (Negative)	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Unallocated	Short Term	0.50	0.50	[ICRA]A1	[ICRA]A1	-	[ICRA]A1	[ICRA]A1
3 Bank Guarantee	Short Term	38.50	38.50	[ICRA]A1	[ICRA]A1	-	[ICRA]A1	[ICRA]A1

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Unallocated	Not applicable
Bank Guarantee	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	Cash Credit	NA	NA	NA	4.00	[ICRA]A(Negative)
NA	Unallocated	NA	NA	NA	0.50	[ICRA]A1
NA	Bank Guarantee	NA	NA	NA	38.50	[ICRA]A1

Source: Company

#### Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Indag Rubber Limited	-	Full consolidation
Millenium Manufacturing Services Private Limited	51.00%	Full consolidation

#### Corrigendum

**Rationale dated February 20, 2025 has been revised with following changes as below:**

On page 4, in key financial indicators table, figure of PAT has been revised from Rs 16.6 crore to Rs 15.6 crore for FY2024.

## ANALYST CONTACTS

**Shamsher Dewan**

+91 124 4545 328

[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Kinjal Shah**

+91 022 6114 3400

[kinjal.shah@icraindia.com](mailto:kinjal.shah@icraindia.com)

**Mythri Macherla**

+91 80 4332 6407

[mythri.macherla@icraindia.com](mailto:mythri.macherla@icraindia.com)

**Nishant Misra**

+91 124 4545 862

[nishant.misra@icraindia.com](mailto:nishant.misra@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## HELPLINE FOR BUSINESS QUERIES

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

[info@icraindia.com](mailto:info@icraindia.com)

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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.

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## ICRA Limited



### Registered Office

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



### Branches



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