March 18, 2024

Phoenix Conveyor Belt India (P) Limited: Ratings reaffirmed; outlook revised to Positive

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+ (Positive)/ [ICRA]A1+ reaffirmed; Outlook revised to Positive from Stable
Total	**131.00**	**131.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision of the outlook to Positive for Phoenix Conveyor Belt India (P) Limited's (PCBIPL) factors in the company's expected improvement in earnings in CY2023 and CY2024 on the back of increased focus on value-added products commanding price premium. During 9MCY2023, the company continued to show improved operating margins. Further, ICRA expects PCBIPL to sustain its strong liquidity position and maintain nil debt status, leading to healthy debt protection metrics.

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 as part of the Continental Group. This affiliation benefits the company in terms of access to better technology as well as raw material sourcing capabilities. 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. ICRA also notes that the scale of operations remained moderate for the past several years and its margins also remained volatile in the past. With changes in the business strategy for executing projects in the niche segment, the margins improved in CY2022 and CY2023. Going forward, the margins are expected to remain healthy and comfortable with a focus on higher value-added products.

Key rating drivers and their description

Credit strengths

Focus on higher value-added products boosts overall margins – Since mid-CY2018, PCBIPL shifted its strategy and focussed more on the niche segment of products such as pipe conveyors, side-wall conveyors, heat-resistant belts, heavy-duty tunnelling belts and others, which resulted in improved margins. The company continues to focus on the bottom line rather than increasing the top line. The shift in strategy resulted in healthy profits in CY2022 and CY2023. The company also plans to grow in the service business – supervision for jointing and splicing, digital services (such as scanning devices with data analytics) and service materials. Consequently, the earning is expected to improve in CY2023 and CY2024.

Conservative capital structure with substantial cash balance – PCBIPL is a debt-free company and continues to maintain a healthy cash/bank balance, providing strong financial flexibility to the company. As the 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.

Dominant position in the domestic conveyor belt industry; support from parent further strengthens market position - PCBIPL manufactures conveyor belts and its product portfolio includes steel cord reinforced (SR) and textile reinforced (TX) conveyor belts. SR belts contributed ~69% of the company's overall revenues in CY2022 and 9M CY2023, while TR belts contributed ~28% and the remaining was from 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 mining, power, steel, cement and port sectors, which require bulk material handling. The company's primary customers include reputed players from these industries. The initial belt requirements are usually for project execution stages. Also, the product has considerable replacement demand owing to its average life of around three to five years. However, ICRA notes that PCBIPL is exposed to overall economic cycles as most user industries are cyclical in nature.

Credit challenges

Moderate scale of operations over the past few years, however, margins improved owing to high value-added products – PCBIPL's operating income has remained moderate over the past several years primarily due to declining sales volumes. However, the same is improving at present with the enhancement of operating margins.

Moderate order book on an absolute basis – PCBIPL has an outstanding order book of around three to four months as on December 1, 2023. ICRA notes that the company's moderate order book position leads to limited revenue visibility in the near term. However, the company remains selective in taking up new orders and opts for orders primarily with high margins, mitigating the counterparty credit risk.

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 belts, which constitutes around 30% of the company's total raw material costs. The company uses most of its total requirement from synthetic rubber and the balance is met from natural rubber. The adverse raw material price movements have impacted margins in the past. The company has started including a price variation clause (PVC) in contracts with long lead times to protect its margins.

Liquidity position: Strong

ICRA expects the overall liquidity position of PCBIPL to remain strong owing to its surplus cash/bank balance, providing strong financial flexibility. Moreover, the absence of any major capital expenditure plan and long-term debt service obligations strengthens the company's liquidity profile.

Rating sensitivities

Positive factors – ICRA may upgrade PCBIPL's ratings if an 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 a sustained deterioration in its financial performance, and/or if there is an increase in working capital intensity of operations and/or any large dividend outflow, adversely impacting 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

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 (audited)

PCBIPL	CY2021	CY2022
Operating income	248.52	293.16
PAT	9.79	40.63
OPBDIT/OI	6.70%	15.23%
PAT/OI	3.94%	13.86%
Total outside liabilities/Tangible net worth (times)	0.23	0.17
Total debt/OPBDIT (times)	0.00	0.00
Interest coverage (times)	32.04	74.42

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Feb 29, 20204 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 18, 2024	Jan 19, 2023	Dec 27, 2021	Dec 03, 2020
1	Bank Guarantee/ Letter of Credit	Long term and short term	131.00		[ICRA]A+ (Positive)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+

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+ (Positive)/ [ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis - Not applicable

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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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