May 08, 2024

Indag Rubber Limited: Ratings reaffirmed

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(Stable); reaffirmed
Short-term Unallocated	0.50	0.50	[ICRA]A1; reaffirmed
Short -term – Non-fund Based Bank Guarantee	38.50	38.50	[ICRA]A1; reaffirmed
Total	**43.00**	**43.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings considers ICRA's expectation that Indag Rubber Limited (IRL) will witness sustained growth in revenues, led by healthy demand for replacement tyres, albeit at a reduced pace, on a higher base. The sustained demand is supported by stable replacement tyre demand, coupled with tenders from several state transport unions (STUs). The company's financial risk profile is expected to be strong, characterised by a comfortable capital structure and coverage indicators, led by its debt-free status and healthy liquidity profile at a standalone level. Moreover, 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. The ratings factor in its professional management, supported by an experienced promoter group. 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 it is expected to reflect the credit risk profile more accurately. While IRL is expected to diversify its revenue stream with 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 considerably, going forward, the same 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, the profitability remains 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. IRL's margins have been severely impacted in the past owing to a significant increase in raw material prices. However, the raw material prices have softened from Q3 FY2023. This has resulted in improvement in its margins in FY2023 and 9M FY2024. While the industry has witnessed intense competition from the 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.

The Stable outlook on the [ICRA]A rating reflects ICRA's expectations that IRL will continue to maintain its strong financial risk profile in the absence of any major debt-raising plan. In addition, a Stable outlook for the tyre industry along with increasing radialisation augurs well for future demand in the retreading segment. The performance of Millenium will also remain a key rating monitorable.

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 and its technical knowhow 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 – The promoters of IRL have been associated with the business of manufacturing 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. Further, its net worth is expected to improve to Rs. 225-235 crore in FY2024 and remain strong. Consequently, IRL's capital structure and coverage metrics remain comfortable, at a standalone level. Going forward, Millenium is expected to raise debt for bridging its working capital gap once the commercial operations commence. Despite additional debt, the capital structure and coverage indicators of IRL are expected to remain comfortable at the consolidated level, going forward. Further, IRL is expected to continue to have strong liquidity, which lends comfort.

Diversification towards renewable energy space through investment in subsidiary provides revenue visibility, however, execution and project risks persist – Since its inception, the company had a single source of revenue from manufacturing and sales of retreading materials. As a result, its scale continued to be modest, given the limited size of the industry and 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. Further in FY2024, IRL forayed into the energy space through an investment of Rs. 11 crore in its subsidiary, which will be engaged in contract manufacturing of PCS for one of the largest global companies in this space. The diversification augurs well for IRL and will provide an impetus to its scale, which remained rangebound for the past several years. However, the project and the execution risks persist.

Credit challenges

Modest scale of operations in a highly unorganised industry; 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 of replacement tyres. The growth sustained in 9M FY2024 as well, albeit at a much gradual pace on a higher base. The revenues grew by ~6% in 9M FY2024 on a YoY basis. 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 for the same.

Profitability continues to be vulnerable to raw material price fluctuations – 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 the raw material prices directly impacts IRL's profitability. However, from Q2 FY2023 onwards, the company has witnessed favourable input price trend which has resulted in improved margins. Although, some spike has been witnessed in the prices of Natural Rubber in recent quarters, and therefore profitability may moderate to some extent, going forward.

Competition from unregulated players persists – The industry is highly unorganised with a sizeable portion of retreading done by small-sized regional players. With several small players in the field as well as several tyre OEMs setting up their retreading verticals, IRL faces 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 pre-requisites 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 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. The company does not produce any significant waste. The waste produced is generally sold as scrap. Several anti-pollution systems are fully installed and operational. 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 of December 31, 2023. 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 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 improvement in the working capital intensity may trigger ratings upgrade.

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
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 one of the reputed global companies. The remaining 49% has been invested by the 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 2 years.

Key financial indicators (audited/provisional)

Consolidated	FY2022	FY2023	9M FY2024*
Operating income	166.9	243.9	189.9
PAT	2.6	13.2	13.4
OPBDIT/OI	0.5%	5.7%	7.5%
PAT/OI	1.6%	5.4%	7.1%
Total outside liabilities/Tangible net worth (times)	0.1	0.2	-
Total debt/OPBDIT (times)	-	0.5	-
Interest coverage (times)	4.8	42.1	-

*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: 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	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 08, 2024	-	Mar 30, 2023	Mar 30, 2022
1	**Cash Credit**	Long Term	4.00	4.00	**[ICRA]A(Stable)**	-	**[ICRA]A(Stable)**	**[ICRA]A(Stable)**
2	**Unallocated**	Short Term	0.50	0.50	**[ICRA]A1**	-	**[ICRA]A1**	**[ICRA]A1**
3	**Bank Guarantee**	Short Term	38.50	38.50	**[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(Stable)
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

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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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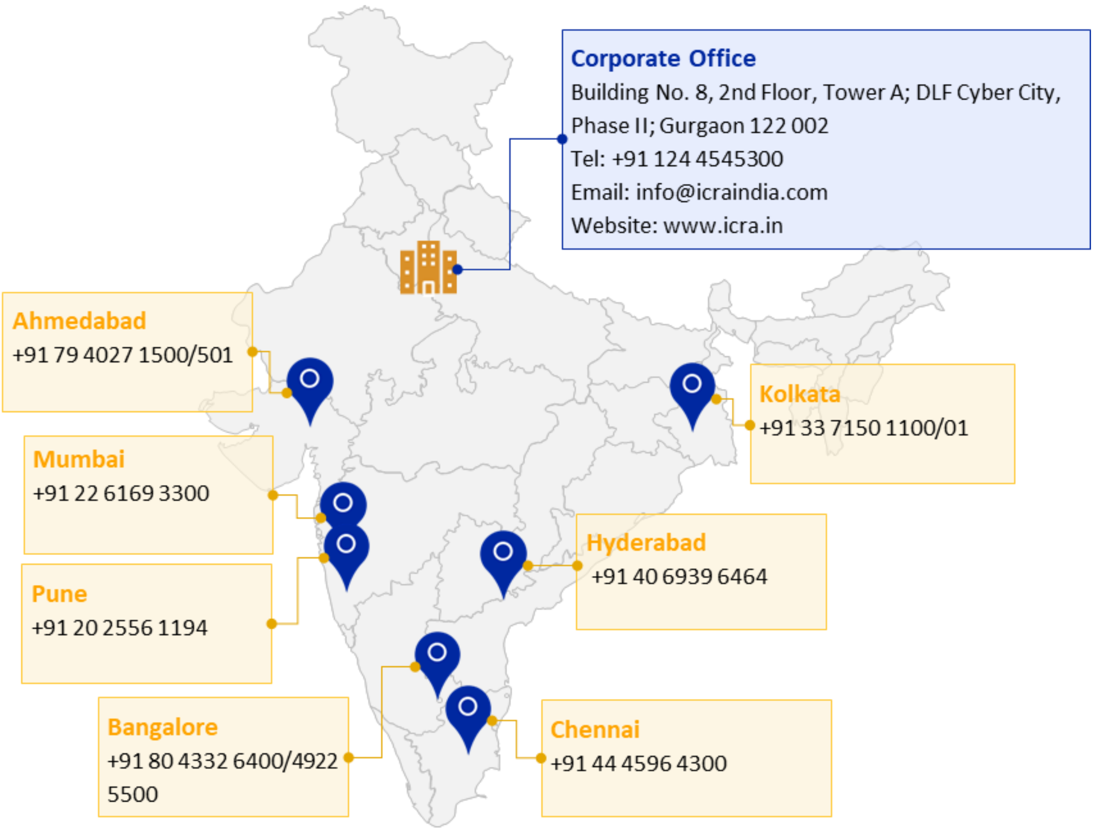

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