

Topland Engines Private Limited

Instrument	Amount Rated	Rating Action
Fund based Limits	Rs 10.00 crore	Upgraded to [ICRA] BBB+ (Stable) from [ICRA] BBB (Stable)
Non Fund based Limits	Rs 4.75 crore	Upgraded to [ICRA] A2+ from [ICRA] A3+

ICRA has upgraded the long term rating from [ICRA]BBB (pronounced ICRA triple B) to [ICRA] BBB+ (pronounced ICRA triple B plus) to the Rs. 10.00 crore¹ fund based bank facilities of Topland Engines Private Limited (TEPL)². The outlook on the long term rating is 'Stable'. ICRA has also upgraded the short term rating from [ICRA]A3+ (pronounced ICRA A three plus) to [ICRA]A2+ (pronounced ICRA A two plus) for the Rs. 4.75 crore non-fund-based bank facilities of TEPL.

For arriving at the rating, ICRA has taken a consolidated view of TEPL and its trading arm Topland Exports because of the operational, financial and managerial synergies between them. The ratings upgrade factors in the improvement in the company's financial risk profile characterized by better profit margins in FY2015 and in 9M FY2016, aided by lower raw material cost; large unencumbered cash and bank balances, healthy return indicators and debt coverage indicators, coupled with significant improvement in capital structure on account of healthy accruals, and limited borrowing levels. The ratings continues to positively consider TEPL's promoter's extensive experience in the engine and pump industry; company's wide distribution network and diversified product portfolio with products at all price points imparting significant operating flexibility to adapt to changing market conditions, though concentration of exports through Topland Exports, a group company, in the politically sensitive African & Middle East markets exposes the company to volatility in revenues and cash flows.

The ratings are however, constrained with increased price based competition from both organised and unorganised players and increasing electrification in the key markets of TEPL's thereby adversely affecting the overall demand of diesel engines and pump sets. Further, its profitability and cash flows are susceptible to volatility in input prices due to high inventory holding period. ICRA also notes that there is high dependence on credit support for the purchase of farm equipment, given the weak economic conditions of most farmers.

The continued ability to pass on a major portion of the input price increase to end customers considering the farmers weak purchasing power, in the midst of low cost competition from local and regional players; and to increase the revenue stream from export market and through product diversification for countering the falling demand of diesel engine pump sets with increasing electrification in the domestic market would be some of the key rating sensitivities.

Company's Profile

Founded in 1969, Topland Engines Private Limited (TEPL) was promoted by Mr Govind Patel for manufacturing small size diesel engines, gensets, and alternators, pump sets etc. The company primarily caters to the requirement of agricultural & industrial market; the sales in the domestic market are largely driven by the agricultural segment and are mainly concentrated in Western and Northern region while exports are through a group company and are primarily in Africa and Middle East markets.

Recent Results

During FY 2015, TEPL reported an operating income of Rs. 143.00 crore and profit after tax of Rs. 9.01 crore as against operating income of Rs. 140.50 crore and profit after tax of Rs. 8.03 crore during FY 2014. Further, in 9M FY 2016 (as per unaudited provisional financials), TEPL reported an operating income of Rs. 133.24 crore.

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¹ 100 lakhs = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.



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