

April 07, 2021

International Combustion (India) Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based- Working Capital (cash credit)	12.25	12.25	[ICRA]BB+ (Negative); Reaffirmed
Fund-based- Working Capital (bill discounting)	3.00	-	-
Non-fund based-Working Capital	18.00	18.00	[ICRA]BB+ (Negative); Reaffirmed
Fund based/ Non-fund based facilities (sub-limits)	(12.00)	(14.00)	[ICRA]A4+; Reaffirmed
Unallocated limit	-	3.00	[ICRA]BB+ (Negative)/ [ICRA]A4+; Reaffirmed
Total	33.25	33.25	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings considers the proven track record of International Combustion (India) Limited (ICIL) in the material handling equipment (MHE) as well as the industrial gear/gear drives (gear) segments and its technological tie-ups with reputed global players, which enhance the company's competitive position. Capital structure of the company also remains conservative.

The ratings, however, factor in ICIL's weak performance in 9M FY2021, reflected by an operating loss and a higher net loss compared to 9M FY2020 mainly due to a low revenue in Q1 FY2021 amid the Covid-19 pandemic, notwithstanding an improvement in the company's revenue and profitability in the recent months. The ratings are also constrained by the continuing weak performance of the building material segment, which is likely to exert pressure on the company's overall profitability and cash flows until the segment's scale of operation surpasses the break-even level. Moreover, as a manufacturer of capital goods, ICIL remains vulnerable to the cyclicity of the end-user industries, particularly steel, which contributes a significant portion to its sales. ICRA further notes that most of the contracts that ICIL enters have fixed prices. Hence any adverse movement in raw material prices is likely to negatively impact its profitability. The company faces intense competition from the unorganised segment as well as large organised players, which is likely to keep its margins under check.

The Negative outlook on the [ICRA]BB+ rating reflects ICRA's opinion that ICIL's financial performance is likely to remain depressed in FY2021 and an improvement in its credit profile will depend on a sustained recovery in demand from the key user industries.

Key rating drivers and their description

Credit strengths

Established track record in material handling and industrial gear segments – ICIL has been involved in the MHE and gear segments for a long time, initially as a trader (since its incorporation in 1936) and subsequently as a manufacturer (since 1961). It caters to reputed EPC contractors, engineering companies and leading manufacturing entities, mainly in the steel, mining, sugar and cement industries. Repeat orders from the reputed clientele in both the private and public segments reflect ICIL's good product quality.

Technological tie-ups with reputed global players enhance market position – ICIL has technical tie-ups with globally established players for both the MHE and the gear divisions. Apart from enhancing the product portfolio, such tie-ups improve

the company's market position. ICRA notes that historically such tie-ups have led to frequent transfer of technology, enabling ICIL to introduce new products in the domestic market. ICIL, through its linkages with global players, has been able to establish itself as a supplier of capital goods to various industries including steel, sugar, cement, mining etc.

Conservative capital structure – The company's tangible net worth remained healthy due to accretion to reserves accumulated over the years. This along with limited borrowing kept ICIL's gearing low at 0.28 times as on March 31, 2020. Its total outside liabilities relative to the tangible net worth (TOL/TNW) also remained conservative at 0.67 times as on March 31, 2020.

Credit challenges

Significant revenue decline and higher loss in 9M FY2021 vis-a-vis 9M FY2020, notwithstanding an improvement in performance in recent months – ICIL reported a net loss of Rs. 1.87 crore in FY2020 mainly due to weak performance of the MHE segment, which is the largest contributor to its revenue and profit, and the lockdown because of the pandemic, affecting revenues in March 2020, to some extent. Moreover, the company's operating income declined sharply to Rs. 70.55 crore in 9M FY2021 vis-a-vis Rs. 91.14 crore in 9M FY2020 mainly on account of low revenue generated in Q1 FY2021 due to the pandemic. This led to an operating loss in 9M FY2021 despite a decline in employee expenses and overhead expenses because of the pandemic. Consequently, ICIL's net loss in 9M FY2021 widened to Rs. 6.61 crore vis-a-vis Rs. 4.44 crore in 9M FY2020. However, the company's performance has improved in the recent months, which is likely to reduce the amount of loss in the full year of FY2021.

Significant losses incurred in building material segment exert pressure on cash flows; turnaround of the segment remains critical from credit perspective – The company commissioned its dry mortar manufacturing unit in Ajmer, Rajasthan in March 2016. However, its market penetration in the building material segment remained limited so far, leading to low capacity utilisation and sales. This, in turn led to significant losses (Rs. 4.7 crore at the PBIT level in FY2020) in the segment, which adversely impacted the overall profitability and exerted pressure on ICIL's cash flows. In FY2020, ICIL entered a technical collaboration with a reputed multinational entity, which enabled it to produce and sell products under the latter's brand name. This is likely to impart operational strength to ICIL's building material segment, a turnaround of which remains critical from the credit perspective. An improvement in sales of dry mortar in recent months is likely to curb the segment's loss to some extent.

Exposed to cyclical nature inherent in the capital goods industry – The performance of the company's MHE and gear segments remains exposed to the cyclical nature inherent in the capital goods sector. In FY2020, the revenues from the relatively high-margin MHE segment dropped significantly, leading to a decline in the overall turnover and a net loss. In FY2021, the performance of both the MHE and gear segments have been adversely impacted by the pandemic. Nevertheless, demand from the key client segments (including the steel industry, which contributed around 33% to the total MHE and gear sales in 9M FY2021) has improved in the recent months.

Vulnerability of margins to fluctuation in raw material prices as contracts are fixed price in nature – ICIL mainly enters fixed-price contracts with its clients. Hence, a significant increase in the raw material (mainly steel) prices during the execution period may adversely impact the company's profitability. Nevertheless, the company usually maintains a short interval between order receipt and raw material procurement, which mitigates the raw material price fluctuation risks to an extent.

Competitive nature of industry limits scope of margin expansion – The capital goods manufacturing industry is characterised by intense competition from the unorganised segment as well as large organised companies, including the players involved in project execution and multinationals entering the segment. This is likely to keep the company's profit margins under check.

Liquidity position: Stretched

ICIL's liquidity position is **stretched**. Its cash flow from operations remained negative in FY2020 due to weak operating profitability and a significant increase in inventory level at the end of FY2020 due to the pandemic. As a result, ICIL's working capital utilisation increased significantly at the end of FY2020. In FY2021, despite depressed operating profitability, the company's cash flow from operation is likely to improve to some extent, supported by a reduction in working capital requirement. The company has availed an emergency line of credit of Rs. 2 crore on account of the pandemic and has also liquidated a portion of its investments in mutual funds, which supported its liquidity position. ICIL's cash credit limit utilisation stood at a moderate level of 67% at the end of February 2021, with an undrawn limit of Rs. 4 crore. Its debt repayment

obligation for FY2021 declined on the back of a sizeable term loan pre-payment made in FY2020 and a partial moratorium availed due to the pandemic.

Rating sensitivities

Positive factors – The outlook on the long-term rating may be revised to Stable if the company achieves a sustained growth in its revenues and profits, aided by an improved demand scenario. Specific credit metrics that may lead to an upgrade of the ratings includes an interest coverage of more than 3 times on a sustained basis.

Negative factors – ICRA may downgrade the ratings if ICIL’s interest coverage remains below 2.2 times on a sustained basis or if its liquidity position deteriorates due to a stretched working capital cycle or any sizeable capex.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

ICIL manufactures mineral and material processing and handling equipment (MHE) and gear box and geared motor drive system (gears). Incorporated in 1936, the company commenced trading operations as a wholly-owned subsidiary of International Combustion, U.K. It forayed into manufacturing in 1961 and went public in 1974. ICIL manufactures MHE products in its plants in Baidyabati, West Bengal and Nagpur, Maharashtra. The company’s gear manufacturing unit is located in Aurangabad, Maharashtra. In March 2016, ICIL commissioned a dry-mortar manufacturing plant in Ajmer, Rajasthan to diversify into the building material industry. The company has also set up an artificial sand manufacturing unit as a backward integration facility for its dry mortar production, though the same has not commenced commercial production as dry mortar sale has remained low.

Key financial indicators (Audited)

ICIL Standalone	FY2019 (audited)	FY2020 (audited)	9M FY2020 (Unaudited)	9M FY2021 (Unaudited)
Operating Income (Rs. crore)	135.01	124.60	91.14	70.55
PAT (Rs. crore)	3.56	-1.87	-4.44	-6.61
OPBDIT/OI (%)	8.04%	2.64%	0.68%	-4.36%
PAT/OI (%)	2.64%	-1.50%	-4.87%	-9.37%
Total Outside Liabilities/Tangible Net Worth (times)	0.65	0.67	-	-
Total Debt/OPBDIT (times)	2.14	7.97	-	-
Interest Coverage (times)	3.43	1.17	0.29	-1.71

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019
					Apr 7, 2021	Jun 4, 2020	Feb 18, 2020	Oct 10, 2019	Mar 12, 2019	
1	Cash Credit	Long Term	12.25	-	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
2	Bank Guarantee	Long Term	18.00	-	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
3	Export Packing Credit / Bill Discounting	Short Term	(10.00)*		[ICRA]A4+	[ICRA]A4+	[ICRA]A3	[ICRA]A3	[ICRA]A3	
4	Letter of Credit	Short Term	(4.00)*	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A3	[ICRA]A3	[ICRA]A3	
5	Unallocated limit	Long Term/ Short Term	3.00		[ICRA]BB+ (Negative)/ [ICRA]A4+	-	-	-	-	
6	Bill Discounting	Short Term	-	-	-	[ICRA]A4+	[ICRA]A3	[ICRA]A3	[ICRA]A3	

Source: Company; *Sub-limits under the facilities rated on long-term scale

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	12.25	[ICRA]BB+ (Negative)
NA	Bank Guarantee	NA	NA	NA	18.00	[ICRA]BB+ (Negative)
NA	Export Packing Credit / Bill Discounting	NA	NA	NA	(10.00)*	[ICRA]A4+
NA	Letter of Credit	NA	NA	NA	(4.00)*	[ICRA]A4+
NA	Unallocated limit	NA	NA	NA	3.00	[ICRA]BB+ (Negative)/ [ICRA]A4+

Source: Company; *Sub-limits under the facilities rated on long-term scale

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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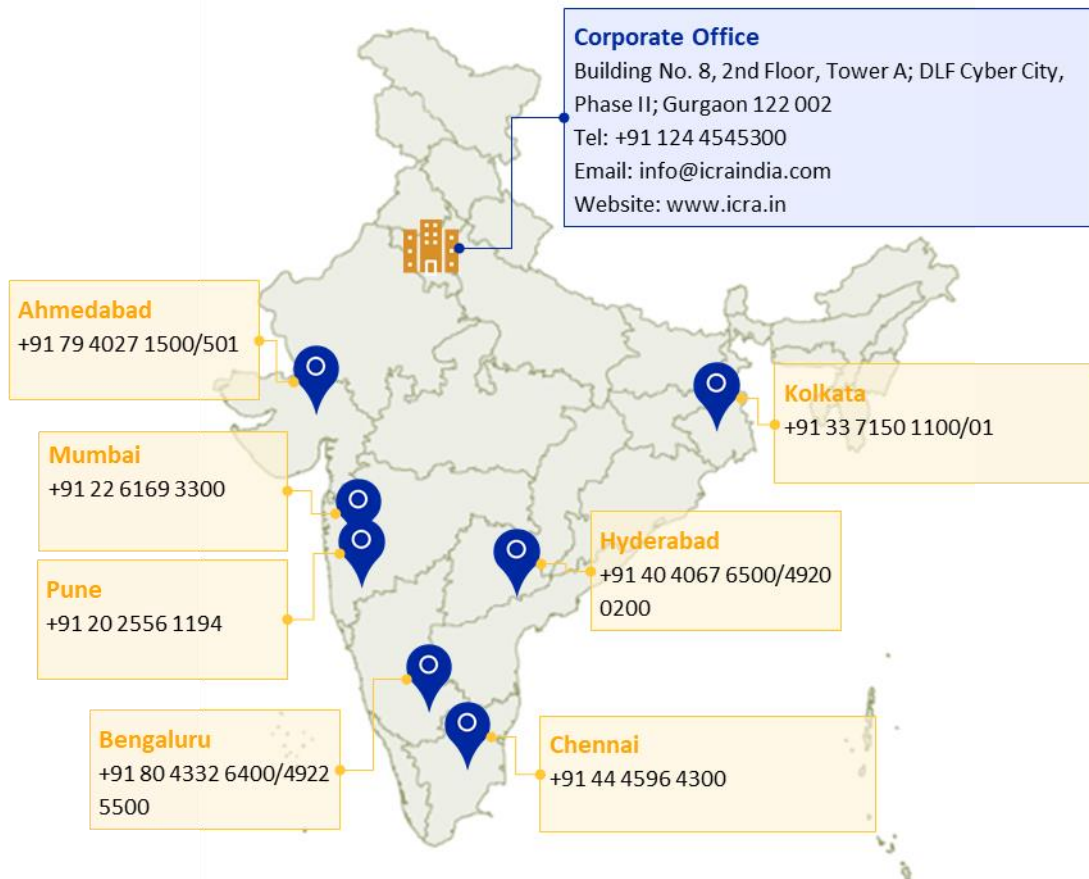
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