May 28, 2021

Tinna Rubber & Infrastructure Limited: Long-term rating upgraded to [ICRA]BB- (Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	9.58	9.58	[ICRA]BB- (Stable); Upgraded from [ICRA]B+ (Stable)
Fund Based – Cash Credit	22.00	22.00	[ICRA]BB- (Stable); Upgraded from [ICRA]B+ (Stable)
Non-fund Based Limits	14.48	14.48	[ICRA]A4; Reaffirmed
Unallocated Limits	15.94	15.94	[ICRA]BB- (Stable); Upgraded from [ICRA]B+ (Stable)
Total	**62.00**	**62.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in the favourable demand prospects for the products of Tinna Rubber & Infrastructure Limited (TRIL), as reflected in its healthy order book position and strong revenue visibility. While the revenue generation was impacted by Covid-19 in the initial period of FY2021, sales picked up thereafter and witnessed healthy traction in H2 FY2021. The growth has continued in the current fiscal as well. TRIL has shifted its product profile towards more value-added products and has reduced its dependence on the road infrastructure sector in the last few years, which has also helped it increase its customer base and reduce concentration risk. TRIL has received approvals from leading tyre manufacturing companies for crumb rubber and reclaim rubber, which have now become its major revenue generators. Leading tyre manufacturers, along with oil marketing companies such as Indian Oil Corporation Limited (IOCL), have added to the reputation of the clientele and have helped forge healthy relations with these clients, ensuring repeat business. Moreover, operating margins improved in 9M FY2021 to ~13% vis-à-vis 7.1% in FY2020. ICRA believes that TRIL will be able to maintain its margin profile and increase its sales volumes going forward. The ratings also consider the extensive experience of the promoters of TRIL and its established track record of more than two decades in rubber-derived products.

The ratings, however, continue to be constrained by the company's working capital-intensive nature of operations, which keeps the working capital limits almost fully utilised, thereby weakening the liquidity profile. Moreover, TRIL has sizeable investments in Group/related companies and has extended corporate guarantees towards bank facilities of some of these entities, which also exert pressure on its liquidity position. The repayment liability of the company remains high due to the debt-funded capex incurred in the past. To meet the funding gap arising from losses in the recent years and scheduled repayment obligations, the company sold its non-core assets in the last few years to raise funds. TRIL's coverage indicators also remained weak with interest coverage and DSCR of 0.9 times and 0.7 times, respectively in FY2020, as compared to 1.5 times and 1.0 times in FY2019. However, these are expected to improve going forward. The ratings also factor in the exposure of the company's profitability to adverse volatility in raw material prices and foreign exchange rates as a sizeable proportion of TRIL's raw material requirements are mainly met through imports. ICRA also notes that there is an ongoing commercial dispute between TRIL and one of its lenders, the outcome of which will remain a key monitorable.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that TRIL will continue to benefit from its experienced management and long track record of operations.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in rubber-derived products business – The promoters have been involved in manufacturing rubber-derived products for more than two decades and have gained a thorough knowledge of the market. Their long presence in the industry has helped the company in understanding the industry dynamics, while continuous focus on research and development has helped it in establishing strong relationships with the key customers.

Diversification of product mix as well as consumer mix has led to favourable demand prospects – The company has diversified its product profile to include reclaim rubber, high grade crumb rubber, cut wire shots, etc. It has also added some highly reputed tyre companies in its customer profile and has received approvals for raw material supply to the same. This has aided it in increasing the sales volume and in turn, its revenues. TRIL recorded OI of ~Rs. 129.7 crore and ~Rs. 122.7 crore in FY2019 and FY2020, respectively. Despite the impact of Covid-19 on the overall economy in FY2021, the company has registered revenues of ~Rs. 85.4 crore in 9M FY2021. Going forward, healthy orders in hand, including an annual offtake agreement with IOCL, should lead to revenue growth for the company.

Credit challenges

Exposure to volatility in raw material prices and foreign currency rates affect margins – TRIL's profitability remains exposed to fluctuations in raw material prices as well as foreign currency rates as a sizeable proportion of raw material requirements is met mainly through imports. However, the company has been trying to mitigate the risk by reducing its dependence on imports and by procuring raw material domestically. Further, the company has some pricing power which allows it to pass on some of the raw material price variability to its customers.

Stretched working capital cycle leads to almost full utilisation of working capital limits – The company has moderate-to-high working capital intensity, which impacts its liquidity as reflected by the almost full utilisation of its working capital limits. Hence, due to very low cushion in limits and limited cash balances, its overall liquidity profile also remains stretched. However, the working capital cycle has improved in FY2019 and FY2020 with NWC/OI of ~29% and ~25%, respectively compared to ~40% in FY2018.

Modest debt coverage indicators – Owing to losses incurred in the previous years and high borrowing expenses as a result of availing ICDs at high rates of interest, TRIL's debt coverage indicators have remained modest, as characterised by DSCR and interest coverage of 0.7 times and 0.9 times, respectively in FY2020. Nonetheless, ICRA notes that the company has repaid a significant portion of its term liabilities in the recent fiscals, which should decrease its borrowing expenses.

Liquidity position: Stretched

The liquidity position of TRIL is **stretched** on account of almost full utilisation of working capital limits, which averaged ~100% for the 14-month period ending in April 2021. There exists considerable debt repayment obligations and the cash balance remained modest at Rs. 0.3 crore as on September 30, 2020. However, ICRA notes that the company has availed a loan under the Emergency Credit Line Guarantee Scheme (ECLGS), which should help in improving its liquidity position to some extent.

Rating sensitivities

Positive factors – ICRA could upgrade TRIL's ratings if there is sustained growth in revenues coupled with improvement in profitability and return indicators. Also, improved liquidity position, which could strengthen the company's overall financial risk profile, would be a positive trigger. A specific credit metric that could lead to an upgrade is interest coverage higher than 2.5 times on a sustained basis.

Negative factors – Sustained decline in turnover and profitability, and further stretch in working capital cycle weakening liquidity profile could lead to a downgrade in ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Tinna Overseas Ltd. (formed in 1987), now renamed Tinna Rubber & Infrastructure Limited (TRIL), is involved in the business of bituminous products and specialises in bitumen modifiers of various types such as crumb rubber, polymer-modified bitumen and bitumen emulsions. The company also has crumb rubber manufacturing facility in five of its existing plants. It has manufacturing facilities at Panipat, Kaalamb, Haldia, Chennai and Wada. However, due to the slowdown in the infrastructure industry in the past few years, it has diversified its product mix to reduce dependency on the sector. Its current product profile includes ultra-fine tyre crumb, high tensile reclaim rubber, carbon steel shots, steep scrap, CRMB and bitumen emulsion.

Key financial indicators (audited/provisional)

TRIL Standalone	FY2019	FY2020	9M FY2021*
Operating Income (Rs. crore)	129.7	122.7	85.4
PAT (Rs. crore)	(0.2)	(3.9)	0.0
OPBDIT/OI (%)	11.8%	7.1%	13.0%
PAT/OI (%)	-0.1%	-3.2%	0.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.4	-
Total Debt/OPBDIT (times)	5.1	8.4	-
Interest Coverage (times)	1.5	0.9	1.6

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

**Provisional financials for 9M FY2021*

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 on May 20, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Da1e & Rating in FY2019
					May 28, 2021	March 29, 2021	April 6, 2020	-	February 28, 2019
1	Fund based- Term Loan	Long Term	9.58	4.72	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)
2	Fund based- Cash Credit	Long Term	22.00	22.00	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)
3	Non-Fund based limits	Short Term	14.48	14.48	[ICRA]A4	[ICRA]A4	[ICRA]A4	-	[ICRA]A4
4	Unallocated Limits	Long Term	15.94	15.94	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based – Term Loan	Simple
Fund Based – Cash Credit	Simple
Non-Fund Based Limits	Very Simple
Unallocated Limits	Not Applicable

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, is available on ICRA's website: www.icra.in

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	Term Loan	FY2014	NA	FY2023	9.58	[ICRA]BB- (Stable)
NA	Cash Credit	NA	NA	NA	22.00	[ICRA]BB- (Stable)
NA	Bank Guarantee	NA	NA	NA	14.48	[ICRA]A4
NA	Unallocated Limits	NA	NA	NA	15.94	[ICRA]BB- (Stable)

Source: *Company*

Annexure-2: 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.

For more information, visit www.icra.in

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