

January 19, 2022

International Combustion (India) Limited: Reaffirmed and outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based- Working Capital	12.25	12.25	[ICRA]BB+; reaffirmed; outlook revised to Stable from Negative
Non-fund based-Working Capital	18.00	18.00	[ICRA]BB+; reaffirmed; outlook revised to Stable from Negative
Fund based/ Non-fund based facilities (sub-limits)	(14.00) *	(28.00) *	[ICRA]A4+; reaffirmed
Unallocated Limits	3.00	3.00	[ICRA]BB+ / [ICRA]A4+; reaffirmed; outlook revised to Stable from Negative
Total	33.25	33.25	

*Instrument details are provided in Annexure-1

Rationale

The revision in the outlook considers the improved financial performance of International Combustion (India) Limited (ICIL) in H1 FY2022 and ICRA's expectation that the trend is likely to sustain going forward. While the performance remained muted in FY2021, there was considerable improvement in H1 FY2022 with a revenue of Rs 69.59 crore and OPBDITA of Rs 3.18 crore compared with a revenue of Rs 35.84 crore and an operating loss of Rs 4.62 crore, respectively, in H1FY2021. Consequently, the improved performance supported debt coverage indicators with an interest coverage and total debt/OPBDITA of around 3.54 times and 1.09 times (annualised), respectively, in H1 FY2022 compared with -0.57 times and -10.71 times, respectively, in FY2021. However, on an absolute basis, the coverage continue to be modest.

A healthy growth in the order book size to around Rs 100 crore as on October 1, 2021 with new work orders in 9M FY2022 along with a favourable demand outlook provides revenue visibility. Thus, ICIL is likely to maintain the improving trend in financial performance. The liquidity position remained comfortable with cash and liquid investment balance of Rs 14.89 crore as on September 30, 2021 and adequate cushion in working capital limits.

The ratings continue to factor in the long track record of the company in the material handling equipment (MHE) and industrial gear/gear drives (gear) segments and its technological tie-ups with reputed global players, which enhance the company's competitive position. The capital structure of the company also remains conservative as reflected in a gearing of 0.16 times as on March 31, 2021.

These strengths are, however, offset by the continuing weak performance of the building material segment, which will continue to exert pressure on the company's overall profitability and cash flows. Moreover, as a manufacturer of capital goods, ICIL remains vulnerable to the cyclical nature of the end-user industries, particularly steel, which contributes a significant portion to its sales. ICRA further notes that most of ICIL's contracts 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 and large organised players, which is likely to keep its margins under check.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that ICIL's financial performance is likely to improve going forward, backed by the strong demand prospects of the user industries.

Key rating drivers and their description

Credit strengths

Significant improvement in financial performance in H1FY2022; new orders to improve revenue visibility in the near term -

The performance of the entity in H1 FY2022 was better than the corresponding period of the previous financial year. The operating income improved significantly to Rs 69.59 crore in H1 FY2022 from Rs 35.86 crore in H1FY2021. The ramp up in the MHE and gear segments resulted in a significant growth. As on October 1, 2021, ICIL has an outstanding order book of ~Rs. 100 crore, which along with a favourable demand outlook, provides revenue visibility in the near to medium term. Consequently, the financial performance is expected to remain favorable in the near term, backed by strong order inflows and re-initiation of various projects. However, on an absolute basis, the coverage indicators would remain modest.

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 the accretion to reserves accumulated over the years. This along with limited borrowing kept ICIL's gearing low at 0.16 time as on March 31, 2021. Its total outside liabilities relative to the tangible net worth (TOL/TNW) also remained conservative at 0.56 time as on March 31, 2021.

Credit challenges

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 has remained limited so far, leading to low capacity utilisation and sales. This in turn led to significant losses in the segment, which adversely impacted the overall profitability and exerted pressure on ICIL's cash flows. In FY2020, ICIL entered into a technical collaboration with a reputed multinational entity, which enabled it to produce and sell products under the latter's brand name. In recent months, ICIL's sales from the building material division improved to Rs. 6.55 crore in H1 FY2022 vis-a-vis Rs. 1.95 crore in H1 FY2021. The loss from the division is likely to decline; however, a complete turnaround of the segment would depend on a sustained improvement in revenue.

Exposed to cyclicity in the capital goods industry – The performance of the company's MHE and gear segments remains exposed to the cyclicity in the capital goods sector. In FY2020, the revenues from the 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. However, a significant recovery helped improve the company's operating income to Rs. 69.59 crore in H1 FY2022 vis-a-vis Rs. 35.86 crore in H1 FY2021.

Vulnerability of margins to fluctuation in raw material prices as contracts are fixed price in nature – ICIL mainly enters into fixed-price contracts with its clients. Hence, a significant increase in 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 risks of raw material price fluctuation 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 and 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: Adequate

ICIL’s fund flow from operation is likely to remain positive in the current fiscal due to the improvement in profits. It has also availed a GECL loan of around Rs. 2 crore on account of the pandemic and liquidated a portion of its investments in mutual funds which have supported the liquidity position. As of September 21, the utilisation of the cash credit limit stood at a moderate level of around 65%. With a comfortable cash and liquid investment balance, the company’s net debt position remains low.

Rating sensitivities

Positive factors – The ratings may be upgraded 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 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 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 profile of the entity

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 at 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.

Key financial indicators

	FY2020 (Audited)	FY2021 (Audited)	H1FY2022 (Unaudited)
Operating Income (Rs. crore)	124.60	109.59	69.59
PAT (Rs. crore)	-1.87	-5.17	0.35
OPBDITA/OI (%)	2.64%	-1.20%	4.56%
PAT/OI (%)	-1.50%	-4.71%	0.50%
Total Outside Liabilities/Tangible Net Worth (times)	0.67	0.56	0.51
Total Debt/OPBDITA (times)	7.97	-10.71	1.09
Interest Coverage (times)	1.17	-0.57	3.54

Source: Company; 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: 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 March 31, 2021 (Rs. crore)	Date & Rating on		Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
				Jan 19, 2022	Apr 7, 2021	Jun 4, 2020	Feb 18, 2020	Oct 10, 2019	Mar 12, 2019
1 Cash Credit	Long-term	12.25	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2 Bank Guarantee	Long-term	18.00	-	[ICRA]BB+ (Stable)	[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]A4+	[ICRA]A3	[ICRA]A3	[ICRA]A3
4 Letter of Credit	Short-term	(18.00)*	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A3	[ICRA]A3	[ICRA]A3
5 Unallocated Limits	Long Term/ Short Term	3.00	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Negative)/ [ICRA]A4+	-	-	-	-
6 Bill Discounting	Short-term	-	-	-	-	[ICRA]A4+	[ICRA]A3	[ICRA]A3	[ICRA]A3

Source: Company,; *sublimits under the rated facilities

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Bank Guarantee	Very Simple
Export Packing Credit / Bill Discounting	Very Simple
Letter of Credit	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 analyzing 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	Cash Credit	NA	NA	NA	12.25	[ICRA]BB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	18.00	[ICRA]BB+ (Stable)
NA	Export Packing Credit/ Bill Discounting	NA	NA	NA	(10.00) *	[ICRA]A4+
NA	Letter of Credit	NA	NA	NA	(18.00) ^	[ICRA]A4+
NA	Unallocated Limits	NA	NA	NA	3.00	[ICRA]BB+ (Stable)/ [ICRA]A4+

Source: Company; * - sublimit under fund-based facilities; ^Sub-limits under non-fund-based facilities

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

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Priyesh N. Ruparelia

91-33- 7150 1111

priyesh.ruparelia@icraindia.com

Sumit Jhunjunwala

91-33- 7150 1111

sumit.jhunjunwala@icraindia.com

Tanmay Chhaparia

91-33- 71501100

tanmay.chhaparia@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.