March 30, 2022

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	4.0	4.0	[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-1

Rationale

The reaffirmation of ratings takes into account Indag Rubber Limited's (IRL) 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. Moreover, the company's strong financial risk profile is characterised by a comfortable capital structure and coverage indicators led by IRL's debt-free status. ICRA draws comfort from its healthy liquidity, supported by unutilised working capital limits, substantial liquid investments and strong cash balances. In addition, a stable outlook for the tyre industry along with increasing radialisation augurs well for future demand in the retreading segment.

However, the ratings remain constrained by IRL's modest scale of operations. This is further accentuated by the highly unorganised and fragmented nature of the industry and significant contraction in profitability in 9M FY2022 amid spike in raw material prices, which is mainly driven by crude oil prices. The margins, thus, continue to be 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. In the current fiscal, the demand has been further muted by several factors, including decline in demand from the Government sector, i.e., State Transport Unions (STUs), owing to the slow activity in public transport.

The Stable outlook on the [ICRA]A rating reflects that IRL will continue to maintain its healthy coverage metrics and benefit from the stable demand outlook as well as its position as a leading supplier of retreading material.

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 with a strong presence through a wide distribution network. Through its plant in Nalagarh, Himachal Pradesh, IRL caters to the entire country with its strong brand name, Indag. IRL can leverage its established market presence in the organised sector, its established brand and technical know-how 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 material since 1978. Initially the business was in a joint venture (JV) with Bandag Corporation, USA. The JV was later terminated on March 1, 2006, as the Khemka Group took over Bandag's shareholding. Therefore, the promoters have more than four decades of experience in the tyre retreading industry. The Khemka Group has interest in varied businesses, such as oil and gas exploration, solar power plants and electric vehicles.

Strong capital structure and coverage metrics with healthy liquidity – The company has nil repayment obligation, and its cash credit limits remain unutilised. Its net worth improved marginally in 9M FY2022 and remained strong at Rs. 200.3 crore as on December 31, 2021. In addition to healthy coverage metrics, IRL continues to have strong liquidity.

Credit challenges

Modest scale of operations in a highly unorganised industry – IRL's scale of operations remains modest with decline in total revenue of ~Rs. 170 crore in FY2021 over ~Rs. 187 crore in FY2020. The revenue shrunk due to slump in demand during the Covid-19 lockdowns, specifically in Q1 FY2021, and consequent curtailed production. While there was traction in revenues in later quarters of FY2021, demand pressures continued in the current fiscal, marred by the second wave in Q1 FY2022. Factors like lower business from STUs and weaker purchasing power of fleet owners exacerbated by inflationary pressures, have limited sales volumes. However, given the strong brand and stable tyre demand outlook, coupled with the company's focus on export growth, the scale is expected to ramp up.

Significant contraction in current year profitability owing to increase in input prices – IRL remains exposed to raw material price fluctuation risks. Prices for key raw materials such as synthetic rubber (SR) and carbon black are linked to crude and have significantly hardened. Natural rubber prices have also been high. IRL has been able to only partly pass on the raw material price increases amid stiff competition. Along with weak demand, this has resulted in contraction in profitability as evident from the operating profit margin of -1.26% and RoCE of -0.02% in 9M FY2022.

Competition continues amid muted demand in CY2022 – The industry is highly unorganised and has become more competitive with the entry of a few big players, such as JK Tyres. 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 some competitive advantages.

Liquidity position: Strong

The liquidity position of the company is **strong**, supported by healthy liquid investments that stood at ~Rs. 76 crore as of December 31, 2021. In addition, the company has fully unutilised cash credit limits, which further aids its liquidity position. IRL has no debt repayment obligations nor any planned major capex in the medium term.

Rating sensitivities

Positive factors – The ratings might be upgraded if there is substantial improvement in scale of operations. Additionally, RoCE above 15%, on a sustained basis, along with improvement in working capital intensity may trigger a rating upgrade.

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

Analytical approach

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

About the company

Indag Rubber Limited was incorporated in July 1978 as a JV between the Khemka Group and M/s Bandag Incorporated, USA, one of the biggest players in the US retreading industry. The above JV was terminated on March 1, 2006 as the Khemka Group took over Bandag's shareholding. Bandag's 2,013,000 equity shares were registered with Indian promoters on May 30, 2006. The company provides retreading material ranging from pre-cured retreaded rubber strips to other retreading accessories like envelopes. IRL uses the cold cure technique to manufacture retreading material. 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.

Key financial indicators (Audited/Provisional)

Consolidated	FY2020	FY2021	9MFY2022
Operating Income (Rs. crore)	186.77	169.84	123.69
PAT (Rs. crore)	13.28	2.76	-0.24
OPBDIT/OI (%)	8.64%	9.58%	-1.26%
RoCE (%)	9.19%	2.13%	-0.02%
Total Outside Liabilities/Tangible Net Worth (times)	0.13	0.13	0.11
Total Debt/OPBDIT (times)	-	-	-
Interest Coverage (times)	64.53	61.25	- 11.30
DSCR (times)	65.15	22.75	21.49

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: Company

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	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Mar 30, 2022	Jan 29, 2021	Jan 16, 2020	Dec 06, 2018
1	Cash Credit	Long-term	4.0	4.0	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A(Stable)**
2	Unallocated	Short-term	0.50	0.50	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**
2	Bank Guarantee	Short-term	38.50	38.50	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**

Amount in Rs. crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Unallocated	NA
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, 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	4.0	[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-2: List of entities considered for consolidated analysis – Not applicable

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