Tinna Rubber & Infrastructure Limited

March 28, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long Term - Fund Based TL	28.00	28.00	[ICRA]B+ (Stable) upgraded from [ICRA]D
Long Term - Fund Based/ CC	22.00	22.00	[ICRA]B+ (Stable) upgraded from [ICRA]D
Short Term-Non Fund Based Limits	12.00	12.00	[ICRA]A4 upgraded from [ICRA]D
Total	**62.00**	**62.00**	

Rating action

ICRA has upgraded its long-term rating on the Rs. 50.00-crore fund-based limits of Tinna Rubber & Infrastructure Limited (TRIL) to [ICRA]B+ (pronounced ICRA B plus) from [ICRA]D (pronounced ICRA D). ICRA has also upgraded the short-term rating on the Rs. 12.00-crore fund-based limits of TRIL to [ICRA]A4 (pronounced ICRA A four) from [ICRA]D. The outlook on the long-term rating is 'Stable'.

Rationale

The ratings upgrade takes into account TRIL's repayment track record of timely debt servicing in the last four months. While taking the rating action, ICRA noted that the shift in TRIL's product profile towards more value added products which have reduced its dependence on the road infrastructure sector. As a result, TRIL's revenue contribution from crumb rubber sales for road sector has reduced to 20% during 11M FY2018 as compared to 95% of the total sales in FY2013. The capacity utilisation of TRIL's plant has improved in 9M FY2018 with increasing sales volumes to other sectors. The company received approvals from leading tyre manufacturing companies during 9M FY2018 which is likely to drive the sales of reclaimed rubber and high grade crumb rubber in the near to medium term and thus led to diversification of the customers profile as well. All these factors combined, led to the improvement in the profitability margins during Q3FY2018 with TRIL recording operating margins of around 16%. ICRA believes that TRIL shall be able to maintain its recent margins and increase its sales volumes going forward. Furthermore, ratings continue to positively factor in the long track record of promoters in the rubber-derived products business since more than two decades.

The ratings continue to be constrained by the working capital intensive nature of operations, which keeps the liquidity position tight along moderate coverage indicators. The repayment liability of the company remains high due to the debt funded capex incurred in the past. In order to meet the funding gap arising due to losses in recent years and scheduled repayment obligations, the company sold its non-core assets to raise funds. The ratings also factors in the exposure of the company's profitability to adverse fluctuations in foreign exchange rates and volatility in the raw material prices as majority of company's raw material requirements are met through imports (75% in FY2017).

The company's ability to continue debt servicing in a timely manner and scale up its revenue along with profitability leading to an improved liquidity profile will be the key rating sensitivities.

Outlook: Stable

ICRA believes that TRIL will continue to benefit from the experience of the promoters along with the diversification of the product and customer profile. The outlook may be revised to Positive in case substantial growth in revenue and profitability strengthens the financial risk profile. The outlook may be revised to Negative if there is a delay in the debt servicing or substantial deterioration in the company's profitability.

Key rating drivers

Credit strengths

Experienced promoters and management with a long track record in the rubber-derived products business – The promoters have been involved in the business of manufacturing rubber-derived products for more than two decades and have gained a thorough knowledge of the market. Such a long presence in the industry has helped the company in understanding the industry dynamics and continuous focus on research and development has helped the company in establishing strong relationship with the key customers.

Diversification of the product as well as the customer mix 11M FY2018- The company has diversified its product profile during FY2017 and 11M FY2018 to include reclaim rubber, high grade crumb rubber, cut wire shot, etc. The company has received product approvals from leading tyre companies which has led to diversification of the customers profile and increase in sales volumes.

Improvement in the margins during Q3FY18- The diversification of the product profile combined as well as the customer profile led to improvement in the performance of the company in Q3 FY2018 with operating margin at around 15.88% and net profit of Rs 0.19 crore after four quarters.

Credit challenges

Significant debt-repayment obligations in the coming years – Due to the capital expenditure incurred by the company over the last few years, the company has sizeable repayments in the coming years. Hence the debt coverage indicators of the company are likely to remain subdued in the near term

Exposure of the company's profitability to adverse fluctuations in foreign exchange rates and volatility in the raw material prices – As most of the company's raw material requirements are met through imports (75% in FY2017), the profitability of the company are largely affected by the raw material price fluctuation which in turn affects the sales realisations.

High working capital intensity resulting from high inventory and debtors levels which impacts liquidity -The Company has high working capital intensity which impacts liquidity of the company as reflected by almost full utilisation of working capital limits.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company

Tinna Overseas Ltd. (formed in 1987), now re-named as Tinna Rubber & Infrastructure Ltd., is in the business of making crumb rubber from used tyres scrap. The company also has crumb rubber manufacturing facility in three of its existing plants. It has manufacturing facilities at Panipat (Haryana), Kalam, Haldia, Gummidipondi (Chennai) and Wada (Maharashtra). From the past few years, the company has diversified its product mix to reduce it dependency on the road related sector. Now, the product profile of the company includes also includes rubber derived products including ultra fine tyre crumb, Hi tensile reclaim rubber, carbon steel shots, steel scrap, etc

Key financial indicators

	FY2016	FY2017	9MFY2018
Operating Income (Rs. crore)	96.70	68.84	71.79
PAT (Rs. crore)	1.66	-6.98	-4.65
OPBDIT/OI (%)	13.69%	2.55%	8.12%
RoCE (%)	8.83%	-0.33%	0.96%
Total Debt/TNW (times)	1.57	1.78	-
Total Debt/OPBDIT (times)	6.34	50.19	-
Interest Coverage (times)	1.53	0.16	0.78
NWC/OI (%)	53%	72%	-

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2015
Instrument	Type			Mar 2018	Sep 2017	July 2017	November 2016
Fund based- Term Loan	Long Term	28.00	18.88	[ICRA]B+ (Stable)	[ICRA]D	[ICRA]B+ (Stable)	[ICRA]BB- (Stable)
Fund based-Cash Credit	Long Term	22.00	-	[ICRA]B+ (Stable)	[ICRA]D	[ICRA]B+ (Stable)	[ICRA]A4
Non Fund based Limits	Short Term	12.00	-	[ICRA]A4	[ICRA]D	[ICRA]A4	[ICRA]A4

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 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	Fund based-Term Loan	FY2014	NA	FY2022	28.00	[ICRA]B+(Stable)
NA	Fund based-Cash Credit	NA	NA	NA	22.00	[ICRA]B+(Stable)
	Non Fund based Limits	NA	NA	NA	12.00	[ICRA]A4

Source: Tinna Rubber & Infrastructure Limited

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About ICRA Limited:

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