Indag Rubber Limited

December 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund based /Cash Credit	8.0	8.0	[ICRA]A; revised from [ICRA]A+; outlook revised from ‘negative’ to ‘stable’
Non-Fund based /Bank Guarantee	45.0	45.0	[ICRA]A1; revised from [ICRA]A1+
Unallocated	2.0	2.0	[ICRA]A1; revised from [ICRA]A1+
Total	**55.0**	**55.0**	

*Instrument details are provided in Annexure-1

Rationale

The rating revision factors in a decline in scale of operations in FY2018, mainly led by lower State Transport Units (STU) business coupled with Goods and Service Tax (GST) implementation. Moreover, the company’s profitability decreased on account of expiry of excise duty benefits along with a spike in raw material prices in FY2018 and H1 FY2019. ICRA also notes a marginal increase in receivables and continuation of IRL’s risen stock levels in FY2018 resulting in slight elongation in working capital cycle.

However, the rating continues to draw comfort from IRL’s strong pan-India distribution network with an established presence in the active retreading belts as well as its long track record in the retreading segment. The rating also favourably factors in IRL’s strong financial risk profile characterised by strong liquidity and healthy cash reserves with liquid investments of over Rs. 90 crore. Further, the rating is supported by limited external debt and unutilised cash credit limit of Rs. 8 crore providing sufficient cushion to the liquidity of the company. Going forward, IRL’s ability to improve the pace of volumetric growth and ensure adequate ramp up and utilisation of its recently enhanced capacity will be important for it to protect its market position and profitability metrics.

Outlook: Stable

ICRA believes that IRL will build upon its scale post revival in the STU business in the current financial year. The outlook may be revised to Positive if the company is able to efficiently ramp up its capacity utilisation and improve its volumetric revenues and increase its profitability. The outlook may be revised to Negative if the decline in scale continues and raw material prices increase, thereby shrinking the profitability further.

Key rating drivers

Credit strengths

Established presence and long track record in retreading industry coupled with IRL’s pan-India distribution network – IRL is an established player in India’s tyre retreading business with a strong presence through a wide distribution network. Till FY2016, the company gained from the available excise duty benefits at its Nalagarh unit. It has strong group backing through its promoters.

Strong financial profile characterised by robust capitalisation and coverage metrics with minimal funding requirements – With no external long-term debt and minimum utilisation of any fund-based working capital limits, the interest burden is very low resulting in healthy debt coverage indicators. The consistent profit accretion and strong net worth of the company to the tune of Rs. 186 crore indicate its strong capital structure. Funding of most capex through internal surpluses has helped the financial health of the company given no reliance on any long-term debt.

Strong liquidity backed by healthy cash reserves and heavy liquid investments – The overall liquid investments of the company to the tune of Rs. 100 crore coupled with almost zero utilisation of the sanctioned Rs. 8-crore cash credit limits has provided healthy cushion to the company's liquidity.

Credit challenges

Reduced scale of operations owing to overall volumetric decline post GST implementation in FY2018; lower STU business leads to decline in operating revenues – Post GST implementation, where de-stocking of the inventory by the dealers led to the overall decline in the volumes, the operating revenues for the company decreased from Rs. 183.6 crore in FY2017 to Rs. 164 crore in FY2018. Earlier, the operating income declined approximately 27% to Rs. 183.6 crore from Rs. 252.8 crore in FY2016 owing to intense competition from bigger players and eventually losing STU clients to the same.

Declining profitability owing to expiry of excise duty benefits and vulnerability to consistently fluctuating raw material prices – With decline in volume sales in FY2018 post increment in the plant's capacity, fixed overheads resulted in lower-than-expected operating margins. Further, the increasing trend of raw material prices in FY2018 and the first half of the current financial year, particularly led by crude derivatives such as synthetic rubber and carbon, resulted in margin contraction to 10.9% in FY2018 from 15.8% in FY2017. Even natural rubber prices rose by 10% in the first half of the current financial year. Of late, the prices of natural rubber and crude has stabilised. However, the volatility continues.

Stiff competition partly moderated by imposition of anti-dumping duty on Chinese tyres – The competition in the industry continues to be intense with healthy competition imposed by local players and bigger players such as J.K. Tyres. The threat was also from the Chinese tyre manufacturers, but it has been mitigated post anti-dumping duty imposed by the Government of India.

Marginally increased working capital cycle on account of increased receivable cycle and continuation of stock levels – The working capital intensity of IRL has worsened from 16.1% in FY2016 to 28.1% in FY2017 and to 30.4% in FY2018. The increase in working capital intensity has been due to increased stock levels since FY2017, exposing IRL to further price fluctuation risks. The debtor days in FY2018 also stretched slightly to 63 days in FY2018 from 52 days in FY2017.

Liquidity position

The liquidity position of the company remains healthy with unused cash credit limits of up to Rs. 8 crore along with heavy liquid investments to the tune of Rs. 100 crore. This apart, company has healthy cash reserves of approximately Rs. 8-10 crore.

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 company

About the company

Indag Rubber Limited (IRL) was incorporated in July 1978 as a joint venture (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 with Bandag's shareholding being taken over by the Khemka Group. Bandag's 2,013,000 equity shares were registered in the name of Indian promoters on May 30, 2006. The company is engaged in providing re-treading material ranging from pre-cured retreaded rubber strip to other retreading accessories like envelopes. IRL uses the cold cure technique to manufacture the retreading material. The company's processes are ISO 9001-2008 certified and the products are tested at multiple stages to ensure superior quality. The manufacturing facility of IRL is located in Nalagarh, Himachal Pradesh.

In FY2017, the firm reported a net profit of Rs. 21.9 crore on an operating income (OI) of Rs. 183.6 crore compared with a net profit of Rs. 15.8 crore on an OI of Rs. 164.0 crore in the previous year. Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	183.6	164.0
PAT (Rs. crore)	21.9	15.8
OPBDIT/ OI (%)	15.8%	10.9%
RoCE (%)	19.2%	11.8%
Total Debt/ TNW (times)	-	-
Total Debt/ OPBDITA (times)	-	-
Interest Coverage (times)	94.1	87.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Type December 2018	Amount Rated (Rs. crore) July 2017	Date & Rating in FY2018 November 2016	Type August 2015
1	Cash Credit	Long Term	8.0	8.0	[ICRA]A (Stable); Revised	[ICRA]A+ (Negative); reaffirmed	[ICRA]A+ (Stable); reaffirmed	[ICRA]A+ (Stable); reaffirmed
2	Bank Guarantee	Short Term	45.0	45.0	[ICRA]A1; Revised	[ICRA]A1+; Reaffirmed	[ICRA]A1+; Reaffirmed	[ICRA]A1+; Assigned
3	Unallocated	Short Term	2.0	2.0	[ICRA]A1; Revised	[ICRA]A1+; Reaffirmed	[ICRA]A1+; Reaffirmed	[ICRA]A1+; Assigned

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	Cash Credit	NA	NA	NA	8.0	[ICRA]A(Stable)
NA	Bank Guarantee	NA	NA	NA	45.0	[ICRA]A1
NA	Unallocated	NA	NA	NA	2.0	[ICRA]A1

Source: IRL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not applicable	Not applicable	Not applicable

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