January 16, 2020

Indag Rubber Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Cash Credit	8.0	8.0	[ICRA]A(Stable); reaffirmed
Unallocated	2.0	2.0	[ICRA]A1; reaffirmed
Non-fund based-Bank Guarantee	45.0	45.0	[ICRA]A1; reaffirmed
Total	**55.0**	**55.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account Indag Rubber Limited's (IRL) strong brand, further aided by a pan-India distribution network in terms of both dealers and retreaders. The ratings also factor in the professional management and support from the experienced promoter group. Moreover, the company's strong financial risk profile characterised by comfortable capital structure and coverage indicators supports the ratings. ICRA also draws comfort from the healthy liquidity supported by unutilised working capital limits, substantial liquid investments and strong cash balances.

However, the ratings remain constrained by the modest scale of operations, further accentuated by the highly unorganised and fragmented nature of the industry. This apart, the margins of the company have been declining over the years because of fluctuations in the raw material prices, i.e. natural rubber and crude derivatives such as synthetic rubber and carbon black. Moderate capacity utilisation amid consistently increasing fixed overheads are other credit weaknesses. Moreover, the incremental investments in subsidiaries and joint ventures remains a concern.

The Stable outlook on the [ICRA]A rating reflects that IRL will build upon its scale, given the augmented business it receives from state transport units (STUs) as well as the experience of the promoters.

Key rating drivers and their description

Credit strengths

Established presence and long track record in retreading industry as well as 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. The company through its plant in Nalagarh, Himachal Pradesh caters to the entire country and has a strong brand name of Indag. The company is part of a strong group with interests in other business verticals such as oil and gas exploration, solar plants and electric vehicles.

Extensive experience of promoters – The promoters of IRL are 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 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.

Strong financial risk profile and modest debt structure – The company has nil repayment obligations and its cash credit limits have not been utilised. On the back of zero outstanding fund-based debt utilisation, IRL's capital structure is strong. The net worth of the company grew to Rs. 190.3 crore in FY2019 from Rs. 186.4 crore in FY2018. The interest coverage and debt service coverage ratio (DSCR) remained strong at 46.5x and 52.0x as on March 31, 2019.

Healthy liquidity position – The company reported strong liquidity with substantial liquid investments and cash balances of Rs. 54.62 crore as on March 31, 2019. The liquidity is further supported by positive cash accruals and unutilised cash credit limits of Rs. 8 crore. The liquid investments are in a number of instruments including equity shares, mutual funds, preference shares, etc. However, the incremental non-liquid investment towards subsidiaries and JVs is a concern.

Credit challenges

Modest scale of operations in a highly unorganised industry – The scale of operations of IRL remains modest with total revenue of Rs. 168 crore in FY2019 compared to Rs. 164 crore in FY2018. However, the traction in revenues was witnessed in the first six months of FY2020 owing to incremental sales made to STUs. The industry is highly unorganised and has become more competitive with the entry of some big players, such as JK Tyres. The competition was expected to moderate post the implementation of Goods and Services Tax (GST). However, the impact is not yet visible, given the current slowdown in the commercial vehicle (CV) segment.

Exposure of profitability to fluctuations in raw material prices – Approximately 60% of the costing for IRL are the raw materials, which mainly includes natural rubber and crude derivatives such as synthetic rubber and carbon black. The adverse fluctuations in the natural rubber prices along with global crude prices result in declined profits.

Moderate capacity utilisation of plant – The overall utilisation of the plant is modest at 50%. The company is expecting the production to increase in FY2020 as tenders of STUs are being catered. Still, the overall capacity utilisation remains moderate. The moderate capacity utilisation also impacts the profitability amid increasing fixed overheads.

Liquidity position: Strong

On account of nil fund-based working capital utilisation and healthy cash balances, the liquidity is **strong**. Given the modest capex plans, the company is likely to remain debt free in the medium term. The liquidity is further aided by the healthy liquid investments of Rs. 51.50 crore being maintained by the company.

Rating sensitivities

Positive trigger: The rating might be upgraded if there is substantial improvement in the scale of operations. The rating upgrade might also be triggered by improvement in RoCE above 15% on a sustained basis along with improvement in working capital intensity.

Negative trigger: The ratings might be downgraded in case revenues and profitability decline or there is further deterioration in working capital intensity. Specific credit metrics which might lead to rating revision include deterioration in operating profit margin below 6%; incremental long-term investments in Group companies/JVs resulting in further deterioration in RoCE; and free cash and liquid investments falling below Rs. 40 crores.

Analytical approach

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

About the company

Indag Rubber Limited (IRL) 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 in the name of Indian promoters on May 30, 2006. The company provides retreading material ranging from pre-cured retreaded rubber strip 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 the products are tested at multiple stages to ensure superior quality. The manufacturing facility of IRL is located in Nalagarh, Himachal Pradesh.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	164.0	168.0
PAT (Rs. crore)	15.76	10.57
OPBDIT/OI (%)	10.9%	7.1%
RoCE (%)	12.0%	7.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.13	0.12
Total Debt/OPBDITA (times)	-	-
Interest Coverage (times)	86.9	46.5
DSCR	89.1	52.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					16-Jan-20	06-December-2018	07-July-2017	07-November-2016
1	Fund-based	Long Term	8.0	8.0	[ICRA]A(Stable); reaffirmed	[ICRA]A(Stable)	[ICRA]A+(Negative)	[ICRA]A+(Stable)
1	Non-fund Based	Short Term	45.0	45.0	[ICRA]A1; reaffirmed	[ICRA]A1	[ICRA]A1+	[ICRA]A1+
1	Unallocated	Short Term	2.0	2.0	[ICRA]A1; reaffirmed	[ICRA]A1	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based	NA	NA	NA	8.0	[ICRA]A(Stable)
NA	Non-fund Based	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: Not applicable

Analyst Contacts

K. Ravichandran
+91-44-45964301
ravichandran@icraindia.com

Manish Ballabh
+91-124-4545812
manish.ballabh@icraindia.com

Gaurav Singla
+91-124-4545366
gaurav.singla@icraindia.com

Nishant Misra
+91-124-4545862
nishant.misra@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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999