September 11, 2019

TATA International DLT Private Limited: Change in rated limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	11.50	11.50	[ICRA]A@; outstanding
Long-term, Fund-based Facilities	32.50	22.50	[ICRA]A@; outstanding
Short-term, Non-fund Based Facilities	13.00	3.00	[ICRA]A1@; outstanding
Long-term / Short-term, Fund-based / Non-fund Based Facilities	0.00	20.00	[ICRA]A@ / [ICRA]A1@; outstanding
Total	**57.00**	**57.00**	

*Instrument details are provided in Annexure-1; @: Ratings under watch with negative implications

Rationale

The ratings takes into account Tata International DLT Private Limited's (TIDPL or the company) healthy operating performance in FY2019 as characterised by a robust YoY revenue growth of ~42% and an improvement in operating profit margin (OPM) to 8.6% from 7.1% in FY2018. This resulted in an improvement in the company's capital structure and debt coverage metrics with gearing at 0.3 time (0.5 time as on March 31, 2018) and TD/OPBDITA at 0.4 time (0.7 time as on March 31, 2018) as on March 31, 2019 and interest coverage of 20.5 times in FY2019 (13.8 times in FY2018). The revenue growth in FY2019, primarily driven by volume growth, was supported by an increased demand for medium and heavy commercial vehicles (M&HCV) due to the stringent overloading restriction norms implemented by several states in India during FY2018 and up to June 2018 in FY2019. Furthermore, the reduced competitiveness of the unorganised players post the implementation of the Goods and Services Tax (GST) with effect from July 01, 2017, has also benefitted organised players like TIDPL. ICRA also draws comfort from the preferred and sole supplier status enjoyed by TIDPL for supply of trailers to Tata Motors Limited (TML, rated [ICRA]AA- (Negative) / [ICRA]A1+), which is the largest M&HCV (goods carrier) manufacturer in India. However, considering that there is no formal agreement for such business arrangement, the impact, if any, on sales to TML (which contributed ~41% to TIDPL's sales in FY2019) on account of the change in shareholding of TIDPL remains to be seen. ICRA notes the expansion in the company's customer base with onboarding of established original equipment manufacturers (OEMs) such as Ashok Leyland Limited (ALL) and Mahindra & Mahindra Limited (M&M), over the last two fiscals.

The ratings are, however, constrained by the company's modest scale of operations and stiff competition from unorganised players in the industry, although the same has moderated, post implementation of GST, to some extent. The company also remains exposed to the cyclicality in the domestic HCV segment. The overall domestic commercial vehicle (CV) industry, especially the HCV segment, has been witnessing a slowdown since H2 FY2019, which has further accentuated in the current fiscal on account of a confluence of factors such as overall slowdown in the economy, the liquidity crunch of non-banking financial companies (NBFCs), and adverse impact of the revised axle load norms implemented with effect from July 2018, which has consequently led to a moderation in TIDPL's performance since H2 FY2019. ICRA expects the pre-buying prior to the Bharat Stage VI (BS VI) implementation with effect from April 01, 2020 to cushion the impact of the current slowdown in FY2020, and, on the flipside, lead to moderation in scale of operations in FY2021. The company plans to incur a capital expenditure amounting to ~Rs. 70 crore, in aggregate, over FY2020 to FY2022 towards capacity expansion to 14,400 units per annum from the current 9,000 units per annum. The same is to be funded through debt to the extent of ~70% and the balance through internal accruals. Coupled with the slowdown in demand in FY2020 and estimated moderation in the scale of operations in FY2021, the increase in overheads associated with the capacity addition is expected to result in some softening in the company's OPM, going forward.

On May 17, 2019, TIDPL's parent - TATA International Limited (which holds 50% stake in TIDPL) - entered into a definitive agreement to sell its 50% stake in TIDPL to Canyon Point Investment Holdings (ADV Partners). In a parallel transaction, TRF Limited also entered into a definitive agreement to sell its 100% stake in Dutch Lanka Trailer Manufacturers Limited (which holds a 50% stake in TIDPL) to Canyon Point Investment Holdings. The ratings of TIDPL drew comfort from its strong parentage by virtue of it being a Tata Group entity and the criticality of TIDPL to the Group, being the sole supplier of trailers to TML, which is the largest M&HCV goods carrier manufacturer in India. The change in shareholding may result in a reduction in the financial flexibility, which the company enjoyed earlier on account of being a Tata Group entity. Pending the conclusion of the transaction, ICRA is currently unable to adequately assess the impact of such a change in shareholding on the company's operating performance and its financial profile, and shall conclude the ratings once clarity emerges on the same.

Key rating drivers and their description

Credit strengths

Robust growth in turnover and significant improvement in OPM – In FY2019, the company reported a robust YoY revenue growth of ~42%, primarily driven by a volume growth of ~29%, which was supported by the stringent overloading restriction norms implemented by several states in India during FY2018 and up to June 2018 in FY2019 and some shift of business to organised players on account of the reduced competitiveness of the unorganised players, post the implementation of GST with effect from July 01, 2017. The improvement in TIDPL's OPM to 8.6% in FY2019 from 7.1% in FY2018 was aided by operating leverage benefits. Such improved operating performance resulted in an improvement in the company's capital structure and debt coverage metrics with gearing at 0.3 time (0.5 time as on March 31, 2018) and TD/OPBDITA at 0.4 time (0.7 time as on March 31, 2018) as on March 31, 2019 and interest coverage of 20.5 times in FY2019 (13.8 times in FY2018), reflecting a notable improvement from the past fiscal.

Preferred and sole supplier status with TML and customer diversification – Currently, TIDPL enjoys the status of being the preferred and sole supplier of trailers to TML, which is the largest M&HCV (goods carrier) manufacturer in India. However, the impact, if any, on sales to TML (which contributed ~41% to TIDPL's FY2019 sales) on account of the change in shareholding of TIDPL remains to be seen. Furthermore, the expansion in the company's customer base with onboarding of established OEMs such as ALL and M&M, over the last two fiscals, is expected to result in reduced customer concentration risk.

Credit challenges

Susceptible to cyclicality in the domestic M&HCV industry – The domestic M&HCV industry exhibits significant cyclicality, with its prospects closely linked to some of the key segments of the economy such as industrial growth and investments in the infrastructure and construction space. Since TIDPL deals with the trailer segment, its sales volume and profitability remain susceptible to the cyclicality in the HCV industry. With the overall domestic CV industry going through a slowdown since H2 FY2019 on account of the general economic slowdown, the NBFC liquidity crunch and adverse impact of the revised axle load norms, continued weakness in trailer demand resulting in suboptimal capacity utilisation, especially considering the company's capacity expansion plans, will remain a key rating sensitivity.

Modest scale of operations – With a turnover of Rs. 507.2 crore in FY2019, the scale of operations of the company remained modest, with its OPM closely linked to capacity utilisation. Though the scale has increased considerably over FY2017 to FY2019 at a compounded annual growth rate (CAGR) of ~62%, the company's ability to increase its scale further by maintaining healthy capacity utilisation of expanded capacities at healthy profitability levels remain critical, given the debt-funded capital expenditure being undertaken by the company.

Intense competition – Though the company remains the largest organised trailer manufacturer in India, its operations remain exposed to intense competitive pressures from the unorganised segment, which accounts for a sizeable share of the domestic trailer manufacturing industry.

Liquidity position: Adequate

TIDPL's liquidity is adequate. In FY2019, the company's cash flow from operations improved considerably on account of an increase in its scale, coupled with an improvement in the OPM and working capital position as on March 31, 2019. The debt profile of the company as on March 31, 2019 comprised long-term loans of Rs. 11.5 crore and short-term working capital borrowings of Rs. 3.9 crore, with term loans having scheduled repayments of ~Rs. 3.4 crore in FY2020, ~Rs. 2.8 crore in FY2021 and ~Rs. 2.7 crore in FY2022. Based on estimated borrowings of ~Rs. 50 crore to fund its proposed capital expenditure plans of ~Rs. 70 crore over FY2020 to FY2022, in aggregate, the company is estimated to have scheduled repayments of ~Rs. 3.4 crore in FY2020, ~Rs. 6.1 crore in FY2021 and ~Rs. 11.0 crore in FY2022. As on March 31, 2019, the company's cash and bank balance stood at Rs. 0.1 crore and the company had unused fund-based working limits of ~Rs. 28 crore.

Rating sensitivities

Positive triggers – ICRA could upgrade TIDPL's rating if it demonstrates a sustained improvement in its credit profile with improvement in sales volume and profitability metrics, along with improvement in capital structure and debt coverage metrics.

Negative triggers – Downward pressure on the ratings could emerge from factors like a sharp decline in trailer demand or suboptimal utilisation of enhanced capacities leading to deterioration in profitability indicators and / or a significant increase in debt levels leading to deterioration in capital structure and debt coverage metrics. Any large debt-funded capital expenditure / dividend payout, which results in a stretch in liquidity, will be a credit negative. Furthermore, a significant decline in sales volume resulting from the exit of the Tata Group promoter entities, will also be a credit negative.

Analytical approach

Analytical Approach	**Comments**
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent / Group Support	Not applicable
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company

About the company

Tata International DLT Private Limited was incorporated in June 2005 as a 50:50 joint venture between Tata International Limited (TIL) and Dutch Lanka Trailers Manufacturers Limited (DLT, a step-down wholly-owned subsidiary of TRF Limited), Sri Lanka. It started its manufacturing activity from April 2006.

TIDPL is in the business of designing, manufacturing and selling of trailers, used for transporting containers, steel coils, structural steel, cement, granite and marble, coal and heavy cargo. The company has three major product segments of flatbed, skeletal and sidewall in 35 tonnes, 40 tonnes and 49 tonnes, with lengths between 7 metres and 22 metres.

On May 17, 2019, TIDPL's parent - TIL entered into a definitive agreement to sell its 50% stake in TIDPL to Canyon Point Investment Holdings (ADV Partners). In a parallel transaction, TRF Limited also entered into a definitive agreement to sell its 100% stake in DLT (which holds 50% stake in TIDPL) to Canyon Point Investment Holdings.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	356.2	507.2
PAT (Rs. crore)	15.0	28.3
OPBDIT/ OI (%)	7.1%	8.6%
RoCE (%)	48.8%	67.5%
Total Outside Liabilities/ Tangible Net Worth (times)	2.1	1.0
Total Debt/ OPBDIT (times)	0.7	0.4
Interest Coverage (times)	13.8	20.5
DSCR	5.3	3.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)						Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating			Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
					11-September 2019	07-August 2019	27-May 2019	28-June 2018	11-April 2017	31-December 2016	12-April 2016
1	Term Loans	Long-term	11.5	11.5	[ICRA]A@	[ICRA]A@	[ICRA]A@	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Fund-Based Facility	Long-term	22.5	-	[ICRA]A@	[ICRA]A@	[ICRA]A@	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Unallocated	Long-term / Short term	-	-	-	-	[ICRA]A@ / [ICRA]A1 @	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A- (Stable) / [ICRA]A2+	-	-
4	Fund-Based Facility	Short-term	-	-	-	-	[ICRA]A1 @	[ICRA]A1	-	-	-
5	Non-fund Based Facilities	Short-term	3.0	-	[ICRA]A1@	[ICRA]A1@	[ICRA]A1 @	[ICRA]A1	[ICRA]A2+	[ICRA]A2 +	[ICRA]A2 +
6	Fund-Based / Non-fund Based Facilities	Long-term / Short-term	20.0	-	[ICRA]A@/ [ICRA]A1@	-	-	-	-	-	-

*As on March 31, 2019; @: Rating under watch with negative implications

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	Long-term Loan 1	Dec-15	9.10%	Apr-21	0.3	[ICRA]A@
NA	Long-term Loan 2	Sep-15	9.05%	Apr-22	1.4	[ICRA]A@
NA	Long-term Loan 3	Mar-19	9.25%	Oct-24	5.5	[ICRA]A@
NA	Long-term Loan 4	Mar-15	10.65%	Apr-20	1.0	[ICRA]A@
NA	Long-term Loan 5	Jun-17	10.65%	Aug-22	3.3	[ICRA]A@
NA	Long-term, Fund-based Facilities	NA	NA	NA	22.5	[ICRA]A@
NA	Letter of Credit / Bank Guarantee	NA	NA	NA	3.0	[ICRA]A1@
NA	Long-term / Short-term, Fund-based / Non-fund Based Facilities	NA	NA	NA	20.0	[ICRA]A@/ [ICRA]A1@

@: Rating under watch with negative implications

Source: TATA International DLT Private Limited

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About ICRA Limited:

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