CareEdge RATINGS

# International Conveyors Limited (Revised)

July 05, 2022

## Ratings

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 34.10 (Enhanced from 28.00) | CARE BBB; Stable (Triple B; Outlook: Stable) | Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable) |
| Long-term/Short-term bank facilities | 32.00 (Enhanced from 25.00) | CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable/A Three Plus) | Revised from CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/A Three) |
| Short-term bank facilities | 8.00 | CARE A3+ (A Three Plus) | Assigned |
| Short-term bank facilities | 0.91 | CARE A3+ (A Three Plus) | Revised from CARE A3 (A Three) |
| **Total bank facilities** | **75.01 (₹ Seventy-five crore and one lakh only)** | | |

Details of instruments/facilities in Annexure-1.

**Detailed rationale and key rating drivers**

The revision in the ratings assigned to the bank facilities of International Conveyors Limited (ICL) takes into account improvement in the increase in its scale of operations in FY22 (refers to the period April 1 to March 31), albeit dip in operating profitability due to higher raw material prices, which did not get fully passed on to the end-customers, part reduction in exposure to the group companies and reduction in the debt levels. The ratings also take note of the satisfactory order book position and improvement in the capital structure. Despite reduction, the exposure to the group companies continue to remain significant at about 59% of the net worth as on March 31, 2022. Significant reduction in group exposure remains a key monitorable.

The ratings continue to draw comfort from the long experience of the promoters in the industry, operation in niche segment with few competitors and reputed clientele.

The ratings, however, continue to be constrained by the moderate scale of operations, risk arising out of volatility in the raw-material prices with fixed price nature of contracts, customer concentration risk, exposure to foreign currency fluctuations and working capital intensive nature of operations.

**Rating sensitivities**

**Positive factors – Factors that could lead to positive rating action/upgrade:**

- Significant improvement in order book position on a sustained basis.
- Significant increase in the scale of operation and profitability on a sustainable basis.

**Negative factors – Factors that could lead to negative rating action/downgrade:**

- Decline in the scale of operations and operating profitability margin going below 8%.
- Significant deterioration in gross operating cycle.
- Any further increase in the exposure to group entities from the current level.
- Any major debt-funded capex plan, which will deteriorate the gearing from the existing level.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

**Experienced promoters:** ICL, incorporated in 1973, was promoted by Rajendra Kumar Dabriwala of Kolkata. Dabriwala, aged 78 years, is a second-generation entrepreneur, who started his career from his family-managed coal mining business. However, with rising demand for polyvinyl chloride (PVC) conveyor belts in the mining industry, Dabriwala ventured into manufacturing of PVC conveyor belts.

**Operating in a niche segment with few competitors in the domestic segment:** The company is engaged in a niche segment, ie, manufacturing and marketing of solid woven PVC conveyor belts mainly used in underground mines (coal, potash). ICL is one of the major producers of PVC conveyor belt in the domestic market. The growth in demand is linked to the growth of underground mining operations.

**Reputed client portfolio albeit customer concentration risk:** ICL's PVC conveyor belt is mainly used in underground mining for transportation of minerals. In the domestic market, Coal India Ltd is the major client of the company. As the domestic mining industry is mainly on open-cast route, a large part of the sales is to the international market (such as USA, Canada, etc). As a result, exports accounted for about 89% of the total sales of conveyor belts in FY22 (as against 84% in

1Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

FY21). The order book was largely stable at around ₹27.96 crore as on May 31, 2022, to be executed by September 2022. Around 73% revenue is derived from a single export customer.

**Improvement in scale of operations albeit dip in operating margins in FY22:** The total operating income (TOI) of the company improved on y-o-y basis by around 22.15% from ₹170.63 crore in FY21 to about ₹208.42 crore in FY22 on account of execution of higher export orders and improvement in the sales realisation. However, the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin reduced to 11.05% in FY22 as against 14.23% in FY21 due to increase in the raw material prices, which the company was unable to fully pass on to the end customers due to fixed price nature of contracts. However, the profit after tax (PAT) margin remains comfortable at 7.49% in FY22 as against 8.92% FY21 owning to relatively lower interest and finance cost. Reduction in the interest cost in FY22 resulted improvement in the interest coverage ratio at 5.01x in FY21 from 4.64x in FY21. ICL generated a gross cash accrual (GCA) of ₹21.09 crore vis-à-vis low debt repayment obligation.

**Comfortable capital structure:** Reduction in the unsecured loan along with improvement in net worth due to accretion to reserves in FY22 resulted in improved debt coverage indicators. The overall gearing ratio improved to 0.17x as on March 31, 2022, from 0.35x as on March 31, 2021. The total debt (TD)/GCA improved to 1.80x in FY22 as against 3.34x as on March 31, 2021.

**Key Rating Weaknesses**

**High exposure to group and associate companies albeit reduced in FY22:** Although the company's exposure to its group entities has reduced to ₹135.17 crore as on March 31, 2022 (constituting 59% of net worth), from ₹155 crore as on March 31, 2021 (constituting 91% of net worth) and further reduced to ₹111.09 crore as on May 31, 2022; however, the same continues to remain significant. The majority of the exposure is in IGE in the form of advances of ₹87.30 crore as on March 31, 2022, and 12% cumulative preference shares in Elpro valued at ₹20.75 crore as on March 31, 2022.

**Moderate scale of operations:** ICL is a relatively smaller player in the solid woven PVC conveyor belt market in the global context and faces stiff competition from well-established players, both in the domestic market as well as the international market.

**Risk arising out of volatility in raw material prices:** Major raw materials used in the process of manufacturing conveyor belts are yarn (polyester, cotton and spun) and chemicals (PVC resin, phosphate plasticizer and others). Major raw materials are derivatives of crude oil and the prices are volatile in nature. The profitability of the company remains exposed to the volatility in raw material prices. However, the company mainly bid for short-term fixed price orders based on inventory in hand thereby mitigating this risk to a large extent. Moreover, in case of long-term orders, the company enjoys escalation clause to a certain extent, which mitigates the risk partially.

**Exposure to foreign exchange fluctuations:** ICL has exposure in foreign currency in the form of raw materials import like PVC Resin and export of the conveyor belts to US, Canada, etc. This foreign currency risk is covered by using foreign exchange forward contracts. Moreover, the company has started executing export orders on 'Free on Board' (FOB) basis wherein shipping and freight costs are borne by the customers. The company reported foreign exchange gain of ₹3.11 crore in FY22 and ₹3.58 crore in FY21.

**Working capital intensive nature of operations:** The company's operation is working capital intensive in nature due to requirement of holding inventories for lead time involved in import of raw material and the time involved in inspection of product quality by the customer and high credit period offered to its customers due to general practice in the industry. Furthermore, increase of debtors' level is also related to the long-term project contracts wherein the payment is received in 30-90 days after the execution of an order (two months for production and two months for delivery). Therefore, it results in long operating cycle. However, operating cycle has substantially improved to 34 days in FY22 as against 72 days in FY21. The improvement in cycle was mainly because of better inventory and collection management.

**Liquidity:** Adequate

The company has adequate liquidity position. The cash accruals are likely to be sufficient to meet the low-term debt repayment obligation in FY23. Furthermore, the company has no major capital expenditure plans in the medium term. The company has investments in listed equity shares amounting to ₹91.37 crore and cash and bank balance of around ₹0.15 crore as on March 31, 2021. The average working capital utilisation remained moderate at around 88% for 12 months ending May 2022.

**Analytical approach:** Standalone

**Applicable criteria**

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Nonfinancial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

**About the company**
ICL, promoted in 1973 by Rajendra Kumar Dabriwala of Kolkata is engaged in the manufacturing of PVC covered fire retardant, antistatic conveyor belting, which are mainly used in underground mining. ICL's has two manufacturing facilities of conveyor belts - located in Aurangabad, Maharashtra (with capacity of 700,800 MPA) and Falta, W.B. (with capacity of 425,000 MPA). The company is also engaged in wind power generation with five wind turbine generators (having capacity of 4.65 MW) and trading of steel cord conveyor belts and fasteners.

| Brief Financials (₹ crore) | FY21 (A) | FY22 (A) | 2MFY23 |
|---|---|---|---|
| Total operating income | 169.75 | 208.42 | NA |
| PBILDT | 23.40 | 23.04 | NA |
| PAT | 15.21 | 15.60 | NA |
| Overall gearing (times) | 0.29 | 0.10 | NA |
| Interest coverage (times) | 4.47 | 5.01 | NA |

A: Audited, NA: Not Available

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company**: Annexure-4

**Annexure-1: Details of instruments/facilities**

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | | - | - | - | 29.00 | CARE BBB; Stable |
| Non-fund-based - LT/ ST-BG/LC | | - | - | - | 32.00 | CARE BBB; Stable / CARE A3+ |
| Non-fund-based - ST-Forward Contract | | - | - | - | 0.91 | CARE A3+ |
| Fund-based - LT-Stand by Limits | | - | - | - | 2.00 | CARE BBB; Stable |
| Fund-based - LT-Working capital Term Loan | | - | - | Aug-2024 | 3.10 | CARE BBB; Stable |
| Fund-based - ST-EPC/PSC | | - | - | - | 8.00 | CARE A3+ |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1 | Fund-based - LT-Cash Credit | LT | 29.00 | CARE BBB; Stable | - | 1)CARE BBB-; Stable (06-Sep-21) | 1)CARE BB+; Positive (08-Jan-21) | 1)CARE BB+; Positive (13-Mar-20) |
| 2 | Non-fund-based - LT/ ST-BG/LC | LT/ST* | 32.00 | CARE BBB; Stable / CARE A3+ | - | 1)CARE BBB-; Stable / CARE A3 (06-Sep-21) | 1)CARE BB+; Positive / CARE A4+ (08-Jan-21) | 1)CARE BB+; Positive / CARE A4+ (13-Mar-20) |
| 3 | Non-fund-based - ST-Forward Contract | ST | 0.91 | CARE A3+ | - | 1)CARE A3 (06-Sep-21) | 1)CARE A4+ (08-Jan-21) | 1)CARE A4+ (13-Mar-20) |
| 4 | Fund-based - LT-Stand by Limits | LT | 2.00 | CARE BBB; Stable | - | 1)CARE BBB-; Stable (06-Sep-21) | - | - |
| 5 | Fund-based - LT-Working capital Term Loan | LT | 3.10 | CARE BBB; Stable | - | 1)CARE BBB-; Stable (06-Sep-21) | - | - |
| 6 | Fund-based - ST-EPC/PSC | ST | 8.00 | CARE A3+ | | | | |

* Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**

**Annexure 4: Complexity level of various instruments rated for this company**

| Sr. No. | Name of Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - LT-Cash Credit | Simple |
| 2 | Fund-based - ST-EPC/PSC | Simple |
| 3 | Fund-based - LT-Working capital Term Loan | Simple |
| 4 | Fund-based - LT-Stand by Limits | Simple |
| 5 | Non-fund-based - LT/ ST-BG/LC | Simple |
| 6 | Non-fund-based - ST-Forward Contract | Simple |

## Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

## Contact us

**Media contact**
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

**Analyst contact**
Name: Punit Singhania
Phone: 9874341122
E-mail: punit.singhania@careedge.in

**Relationship contact**
Name: Lalit Sikaria
Phone: + 91-033- 40181600
E-mail: lalit.sikaria@careedge.in

**About us:**
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



**For the detailed Rationale Report and subscription information, please visit www.careedge.in**