International Conveyors Limited

September 06, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Long Term Bank Facilities	5.60	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Long Term Bank Facilities	22.40 (Enhanced from 18.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Positive (Double B Plus; Outlook: Positive)
Long Term / Short Term Bank Facilities	25.00	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Revised from CARE BB+; Positive / CARE A4+ (Double B Plus ; Outlook: Positive / A Four Plus)
Short Term Bank Facilities	0.91	CARE A3 (A Three)	Revised from CARE A4+ (A Four Plus)
Total Bank Facilities	**53.91 (Rs. Fifty-Three Crore and Ninety-One Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of International Conveyors Limited (ICL) takes into account improvement in increase in scale of operations and profitability in FY21 (refers to the period April 1 to March 31) and Q1FY22 driven by higher margin export sales. The ratings also take note of the satisfactory order book position and improvement in capital structure.

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. However, the exposure to group companies continues to remain significant at about 92% of the networth as on March 31, 2021. Thus, reduction in group exposure remains a key monitorable.

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

<u>Rating Sensitivities</u>

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Significant reduction in exposure to group companies
- Significant improvement in order book position on sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in scale of operations and operating profitability margin going below 8%.
- Significant deterioration in gross operating cycle.
- Any further Increase in exposure to group entities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters: ICL, incorporated in 1973, was promoted by Mr. Rajendra Kumar Dabriwala of Kolkata. Mr. 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 PVC conveyor belts in mining industry, Mr. Dabriwala ventured into manufacturing of PVC conveyor belts. The promoter through his group companies is holding around 15% stake in PNB Metlife India Insurance Company Limited.

Operating in a niche segment with few competitors in the domestic segment: The company is engaged in a niche segment i.e. 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 growth of underground mining operations.

Reputed client portfolio and stable order book position: 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 84% of total sales of conveyor belts in FY21 (as against 81% in FY20). The order book was

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

largely stable at around Rs.27 crore as on June 30, 2021. Furthermore, the company has entered into a six year contract with a Canadian customer which provides revenue visibility in the medium term.

Improvement in financial performance in FY21 and Q1FY22: Total operating income of the company improved on y-o-y basis by around 82% from Rs. 93.51 crore in FY20 to about Rs. 170.63 crore in FY21 on account of account of execution of higher export orders and improvement in sales realisation. With execution of higher margin export orders, PBILDT margin significantly improved to 14.23% in FY21 from 12.01% in FY20. With improvement in operating performance and lower capital charge, the company reported PAT of Rs. 20.02 crore in FY21 from Rs.5.23 crore in FY20. Interest coverage ratio also improved and stood at 4.64x in FY21 from 1.14x in FY20. ICL generated a GCA of Rs.17.60 crore vis-à-vis low debt repayment obligation.
In Q1FY22, ICL achieved PBT of Rs.4.72 crore on operating income of Rs.30.97 crore as against PBT of Rs.1.55 crore on operating income of Rs.32.10 crore in Q1FY21 due to increase in higher margin export turnover.

Comfortable capital structure: With decrease in its unsecured short term debt along with improvement in net worth due to accretion to reserves in FY21, debt coverage indicators has improved. The overall gearing ratio improved to 0.35x as on March 31, 2021 from 0.51x as on March 31, 2020. Total debt/GCA, though improved, remained moderate at 3.34x as on March 31, 2021 as against 10.48x as on March 31, 2020.

Key Rating Weaknesses
High exposure to group and associate companies: *The company's exposure* to its group entities has increased to Rs.155 crore as on March 31, 2021 (Rs.123 crore as on March 31, 2020 (constituting 91% of net worth) which further increased to Rs.175 crore as on June 30, 2021 and the same continues to remain significant. The majority of the exposure is in Elpro in the form of equity shares of Rs.111.61 cores as on March 31, 2021 (Rs. 131.16 crore as on June 30, 2021) and 12% cumulative preference shares valued at Rs. 18.86 crore as on March 31, 2021 (Rs. 19.34 crore as on June 30, 2021).

Small 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 and 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 & spun) and chemicals (PVC resin, Phosphate Plasticizer & others). Major raw-materials are derivatives of crude oil and the prices are volatile in nature. The profitability of the company remains exposed to 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.

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 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. Further, increase of debtors' level is also related to long term project contracts wherein the payment is received in 30-90 day after the execution of an order (2 months for production and 2 months for delivery). Therefore, it results in long operating cycle. However, operating cycle has substantially improved but remain elongated at 72 days in FY21 as against 150 days in FY20. The improvement in cycle was mainly because of substantially improvement in average collection period. Further, the company has been able to recover majority of its debtors outstanding as on March 31, 2021.

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 FY22. The Inter Corporate Deposits outstanding are being repaid as per cash generated from operations. Further, the company has no major capital expenditure plans in the medium term. The average working capital limit utilisation remained moderate at around 61% for 12 months ending July 2021.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to credit ratings

Care's Methodology for Manufacturing Companies

Criteria for short term instruments

Financial ratios – Non-Financial Sector

Policy on default recognition

Liquidity analysis of non-financial sector entities

About the Company

ICL, promoted in 1973 by Mr. 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 belt - 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 a total of five wind turbine generators (having capacity of 4.65 MW) and trading of steel cord conveyor belts and fasteners.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	93.51	170.63
PBILDT	11.23	24.28
PAT	8.44	15.21
Overall gearing (times)	0.51	0.35
Interest coverage (times)	1.14	4.64

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *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

Bank Lender Details: Annexure 5

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	22.40	CARE BBB-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	25.00	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	3.60	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	22.40	CARE BBB-; Stable	-	1)CARE BB+; Positive (08-Jan-21)	1)CARE BB+; Positive (13-Mar-20)	1)CARE BB+; Stable (23-Nov-18) 2)CARE BBB-; Negative (08-Jun-18)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	25.00	CARE BBB-; Stable / CARE A3	-	1)CARE BB+; Positive / CARE A4+ (08-Jan-21)	1)CARE BB+; Positive / CARE A4+ (13-Mar-20)	1)CARE BB+; Stable / CARE A4+ (23-Nov-18) 2)CARE BBB-; Negative / CARE A3 (08-Jun-18)
3.	Non-fund-based - ST-Forward Contract	ST	0.91	CARE A3	-	1)CARE A4+ (08-Jan-21)	1)CARE A4+ (13-Mar-20)	1)CARE A4+ (23-Nov-18) 2)CARE A3 (08-Jun-18)
4.	Fund-based - LT-Stand by Limits	LT	2.00	CARE BBB-; Stable	-	-	-	-
5.	Fund-based - LT-Working capital Term Loan	LT	3.60	CARE BBB-; Stable	-	-	-	-

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 the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-BG/LC	Simple
3.	Non-fund-based - ST-Forward Contract	Simple

Annexure 5: Bank Lender Details

Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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