TIL Limited

June 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	190.00	CARE BB; Negative (Double B; Outlook: Negative)	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)
Long Term / Short Term Bank Facilities	160.00	CARE BB; Negative / CARE A4 (Double B; Outlook: Negative/ A Four)	Revised from CARE BBB-; Negative / CARE A3 (Triple B Minus; Outlook: Negative / A Three)
Total Bank Facilities	**350.00 (Rs. Three Hundred Fifty Crore 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 TIL Limited (TIL) takes into account the significant loss incurred by the company in Q4FY21 (refers to the period January 1 to March 31) due to lower operating income, decline in operating profitability and significant provisions on doubtful receivables. The debt coverage indicators have weakened with decline in profitability and continued high level of debt to meet the increased working capital requirement. The working capital cycle has further elongated in FY21 (refers to the period April 1 to March 31) to 424 days as against 312 days in FY20 with high inventory level and increase in receivables inspite of significant provisions made during the year. The ratings continue to remain constrained by the exposure to foreign exchange fluctuation risk.

To support liquidity, the promoters have infused significant amount of funds as unsecured loans in FY21. However, due to the second wave of the pandemic, there has been a slowdown in collection of dues from customers. Furthermore, the monetisation of a non-core asset which was expected to be completed by May 2021 and would have significantly eased the pressure on liquidity is yet to materialise.

The ratings continue to draw strength from the experience of the promoters along with long and established track record of the company, manufacturing and technical collaboration with leading international players, moderate order book, reputed clientele and consistent source of revenue from maintenance and repair contracts.

Rating Sensitivities

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

- Improvement in operating profitability with PBILDT margin at about 10% on a sustained basis and interest coverage above 1.5x.
- Improvement in operating cycle and release of working capital.
- Reduction in debt level leading to improvement in debt coverage

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

- Continued low operating profitability resulting in weak debt coverage indicators.
- Further deterioration in capital structure or delay in monetisation of non-core assets resulting in inability to reduce debt level.
- Further elongation in operating cycle.

Outlook: Negative

The outlook remains 'Negative' on the expectation of continued subdued profitability and pressure on liquidity due to significant amount of funds blocked in inventory and long due receivables and elevated debt levels more so in the wake of second wave of COVID. The outlook may be revised to stable if the operational performance improves resulting in improvement in debt coverage indicators and liquidity improves with timely monetisation of assets or fund infusion by promoters resulting in reduction in debt level.

Detailed description of the key rating drivers

Key Rating Weaknesses

Significant loss incurred in Q4FY21

TIL incurred loss of Rs.33.57 crore on operating income of Rs.69.60 crore in Q4FY21 as against a profit of Rs.2.31 crore on operating income of Rs.114.92 crore in Q3FY21.

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

TIL's operating income witnessed a decline of about 16% on a standalone basis in FY21 as compared to FY20. Sales have been lower during the year mainly due to the impact on demand and execution due to outbreak of Covid-19 and consequent lockdowns. Also, there has been a disruption in supply chain. The company incurred net loss of Rs.67 crore in FY21 with lower operating profitability on account of under-absorption of overheads, lower margin sales and significant provisioning on receivables (about Rs.36 crore). Finance cost also increased due to higher borrowings to support increase in working capital intensity further impacting profitability.

Deterioration in debt coverage indicators
Interest coverage ratio declined significantly in FY21 as the operating profitability declined and there was further increase in finance cost. After adjusting for the non-cash provision on receivables, the interest coverage stood at 0.30x in FY21 as against 1.39x in FY20.
The debt level has witnessed further increase as on March 31, 2021 with significant infusion of unsecured loans by the promoters during the year and Covid loans availed by the company. With inadequate cash flows from operations, the company has been relying on unsecured loans from promoters to meet its debt obligations. It is also in the process of monetising its non-core assets to support liquidity.

Increased working capital intensity of operations
TIL requires high level of working capital to support and maintain its large inventory of raw materials, finished goods as well as stores & spare parts. The inventory level has continued to remain high as on March 31, 2021 and the receivables level has witnessed further increase. Moreover, a significant proportion of debtors remains due for more than nine months. The fund based working capital limits remained almost fully utilised in the 12 months ended March 2021 with increase in working capital requirement.

Exposure to foreign exchange risk
The major raw materials/inputs required by TIL are high quality steel, engines, chassis for auto mobiles, valves, axle, hoist units, hydraulic ram and cylinder etc. A large part of the material requirement is met through imports (about 50% of the total raw material is imported). This exposes the company to risk of foreign exchange fluctuation.

Key Rating Strengths
Long and established track record with experienced promoters
TIL is an established player in providing technology intensive equipment for the infrastructure sector. The company, over the last seven decades, has consistently introduced new products in the material handling and construction equipment. The current promoter Mr. Sumit Mazumder, possesses rich experience in the industry and is supported by a team of qualified personnel.

Manufacturing and technical collaborations with leading international players
TIL, over the years, has entered into long term manufacturing and technical alliances with leading equipment manufacturers across the globe to offer superior products to its customers. These alliances have given technological parity to the company as most of the other domestic construction and material handling equipment manufacturers have also tied-up with renowned international technology providers.

Moderate order book position with reputed clientele and wide service network
The order book of the company improved to about Rs.346 crore as on March 10, 2021 as against Rs.113 crore on June 30, 2020. The orderbook also includes defence equipment orders worth Rs 200 crore. The client portfolio of the company comprises reputed public sector and private sector entities. With a network of four regional offices, 60 branches & 20 product support centres in India, the company offers the required service back-up to support its product line.

Consistent source of revenue from maintenance & repair contracts and sale of component & spare parts
TIL, while selling its products, also enters into long term maintenance and repair contracts with various customers thereby providing stable and consistent source of future income. It derives income of around one-third of gross sales from sale of components & spare parts.

Liquidity: Stretched
The working capital limits have been utilised almost fully in the 12-month period ended March 31, 2021. The promoters have infused about Rs.70 crore in FY21 and Rs.11 crore in May 2021 as unsecured loans to support liquidity. The company is also looking at sale of other non-core assets, a part of which was expected to be completed by May 2021. However, the same has got delayed and is now expected to be completed in June 2021. The company does not have any major capex plans.

Analytical approach: Standalone.

Applicable Criteria
CARE's Policy on Default Recognition
Rating Methodology – Outlook and Placing ratings under credit watch
Rating Methodology-Manufacturing Companies
Financial Ratios - Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short Term Instruments
Consolidation and Factoring Linkages in Ratings

About the company
TIL, incorporated in 1944, has been in operation for more than seven decades and is engaged in manufacturing and marketing of equipment for material handling, lifting, port & road building solutions. It provides integrated customer support and after-sale services through a well-connected network of offices and product support centres in India along with a subsidiary in Singapore. The manufacturing facilities are located at Kamarhatty (near Kolkata) and Kharagpur in West Bengal. The company operates under two strategic business units (SBUs): Material Handling Solutions (MHS) for manufacturing of material handling equipment (MHE) and Equipment & Project Solutions (EPS) for manufacturing crushing & screening equipment and handling equipment for ports & road building solutions.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	376.96	314.93
PBILDT	3.12	-24.48
PAT	-27.97	-67.02
Overall gearing (times)	1.08	1.69*
Interest coverage (times)	0.09	-0.65

*A-Audited *Excluding acceptances*

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 the rated instrument / facilities - Please refer Annexure-3

Complexity level of various instruments - Please refer Annexure-4

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	-	-	-	190.00	CARE BB; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	160.00	CARE BB; Negative / CARE A4

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	190.00	CARE BB; Negative	1)CARE BBB-; Negative (29-Apr-21)	1)CARE BBB-; Stable (07-Aug-20)	1)CARE BBB; Stable (24-Feb-20) 2)CARE BBB+; Stable (04-Jul-19)	1)CARE BBB+; Stable (06-Jul-18)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	160.00	CARE BB; Negative / CARE A4	1)CARE BBB-; Negative / CARE A3 (29-Apr-21)	1)CARE BBB-; Stable / CARE A3 (07-Aug-20)	1)CARE BBB; Stable / CARE A3+ (24-Feb-20) 2)CARE BBB+; Stable / CARE A2 (04-Jul-19)	1)CARE BBB+; Stable / CARE A2 (06-Jul-18)
3.	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (06-Jul-18)

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

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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