

## International Conveyors Limited

January 08, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	18.00 (Reduced from 28.00)	CARE BB+; Positive (Double B Plus; Outlook: Positive )	Reaffirmed
Long Term / Short Term Bank Facilities	25.00	CARE BB+; Positive / CARE A4+ (Double B Plus ; Outlook: Positive/ A Four Plus )	Reaffirmed
Short Term Bank Facilities	0.91 (Reduced from 1.38)	CARE A4+ (A Four Plus )	Reaffirmed
<b>Total Bank Facilities</b>	<b>43.91</b> <b>(Rs. Forty-Three Crore and Ninety-One Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of International Conveyors Limited (ICL) 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. The ratings also take note of the stable order book position and the improvement in the operating performance of the company in FY20 (refers to the period from April 01 to March 31) with increase in higher margin export sales. Further, the capital structure improved with repayment of short term debt through reduction in exposure to group entities. However, the exposure to group companies continues to remain significant at about 92% of the networth as on March 31, 2020 and 98% of the networth as on September 30, 2020.

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 portfolio.

#### Rating Sensitivities

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

- Increase in scale of operations such that operating income remains above Rs.110 crore and improvement in operating margin (PBILDT margin > 12%).
- Reduction in exposure to group companies and debt level.
- Improvement in order book position.

*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.
- Increase in debt funded exposure to group entities.

#### Outlook: Positive

The outlook is 'Positive' on the expectation of sustained improvement in the scale of operations and profitability with steady revenue visibility arising from the present order book. Further, the debt level is expected to reduce with generation of healthy cash flow from operation. The outlook may be revised to 'Stable' in case of lower than expected improvement in sales and profitability or inability to reduce debt level.

### Detailed description of the key rating drivers

#### **Key Rating Weaknesses**

##### ***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, in the recent orders received, the company has some amount of escalation clause which mitigates the risk to an extent.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**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 and cross currency swap contracts.

**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. The operating cycle stood at 150 days in FY20 as against 124 days in FY19. However, the company has been able to recover majority of its debtors outstanding as on March 31, 2020.

**High exposure to group and associate companies**

ICL's funded exposure (in terms of investments and advances) to its group companies reduced from Rs.190 crore as on March 31, 2019 (constituting 120% of net worth) to Rs.123 crore as on March 31, 2020 (constituting 92% of net worth) and then further increased to Rs.151 crore as on September 30, 2020 (constituting 98% of networth). The majority of the exposure is in Elpro International Ltd (Elpro) in the form of equity shares of Rs.81.57 crore and 12% cumulative preference shares valued at Rs.17.15 crore.

**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 81% of total sales of conveyor belts in FY20 (as against 61% in FY19). The order book was largely stable at around Rs.70 crore as on December 29, 2020 (Rs.80 crore as on December 31, 2019). 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 FY20 and H1FY21**

Total operating income of the company improved on y-o-y basis by around 18% from Rs.79.08 crore in FY19 to Rs.93.51 crore in FY20 on account of improvement in sales realisation. With execution of higher margin export orders, PBILD margin significantly improved from 0.60% in FY19 to 12% in FY20. With improvement in operating performance and lower capital charge, the company reported PAT of Rs.8.44 crore in FY20 as against loss in FY19. Interest coverage ratio improved significantly to 1.14x in FY20 as against a negative figure in FY19. ICL generated a GCA of Rs.6.62 crore in FY20 vis-à-vis negligible debt repayment obligation.

In H1FY21, ICL achieved PBT of Rs.5.31 crore on operating income of Rs.69 crore against PBT of Rs.3.38 crore on operating income of Rs.36.33 crore in H1FY20 on account of increase in higher margin export turnover (around 81% of total sales).

**Improvement in capital structure**

With reduction in exposure to group entities, the company reduced its unsecured short term debt outstanding in FY20. Also, with the increase in profitability and lower interest cost in FY20 and H1FY21, debt coverage indicators improved. The overall gearing ratio improved to 0.51x as on March 31, 2020 from 0.68x as on March 31, 2019. Total debt/GCA, though improved, remained moderate at 10.48x as on March 31, 2020 as against a negative figure as on March 31, 2019. Debt has reduced further in H1FY21.

**Liquidity: Adequate**

The company has an adequate liquidity position. The cash accruals are likely to be sufficient to meet the low term debt repayment obligation in FY20. The Inter Corporate Deposits outstanding are being repaid as per the 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 32% for 12 months ending November 2020.

ICL availed deferment of interest under RBI Covid-19 Regulatory Package of the Reserve Bank of India which was subsequently converted to funded interest term loan. It has also availed Guaranteed Emergency Credit Line (GECL) of Rs.3.60 crore.

**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](#)

[Rating methodology- Consolidation](#)

[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)	FY19 (A)	FY20 (A)
Total operating income	79.08	93.51
PBILDT	0.47	11.23
PAT	-5.50	8.44
Overall gearing (times)	0.68	0.51
Interest coverage (times)	0.05	1.14

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

**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	-	-	-	18.00	CARE BB+; Positive
Non-fund-based - LT/ST-BG/LC	-	-	-	25.00	CARE BB+; Positive / CARE A4+
Non-fund-based - ST-Forward Contract	-	-	-	0.91	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	18.00	CARE BB+; Positive	-	1)CARE BB+; Positive (13-Mar-20)	1)CARE BB+; Stable (23-Nov-18) 2)CARE BBB-; Negative (08-Jun-18)	1)CARE BBB; Negative (03-Jan-18)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	25.00	CARE BB+; Positive / CARE A4+	-	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)	1)CARE BBB; Negative / CARE A3+ (03-Jan-18)
3.	Non-fund-based - ST-Forward Contract	ST	0.91	CARE A4+	-	1)CARE A4+ (13-Mar-20)	1)CARE A4+ (23-Nov-18) 2)CARE A3 (08-Jun-18)	1)CARE A3+ (03-Jan-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
3.	Non-fund-based - ST-Forward Contract	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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