International Combustion India Limited

July 08, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	14.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Short Term Bank Facilities	18.00	CARE A3 (A Three)	Assigned
Total Bank Facilities	**32.00 (₹ Thirty-Two Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of International Combustion India Limited (ICIL) take into account experienced promoters with established track record in the material handling and industrial gear segment, reputed and diversified clientele, moderate order book position providing revenue visibility in the near term and technological tie-ups with reputed global players which enhances the competitive position of ICIL. The rating also factors in moderate financial performance of the company with significant improvement witnessed in FY22 (refers to period April 01 to March 31) on the back of increased demand in the material handling equipment and industrial gear segment. The rating also draws comfort from satisfactory capital structure marked by low reliance on external debt.

The rating however; is partially offset by weak performance of the building material segment which has continued to exert pressure on the overall profitability and cash flows of the company. However, with the introduction of newer products in this segment and collaboration with a reputed global player, this segment's sales have improved and losses have reduced and is expected to break even in the current financial year. The rating is also constrained by cyclicality associated with the engineering and capital goods industry, competitive nature of the industry and susceptibility of profitability to volatility in the prices of raw materials due to fixed price contracts with its customers.

Rating Sensitivities

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

- Increase in scale of operations marked by TOI above Rs 250 crore and PBILDT margin above 9% on a sustained basis
- Sustenance of overall gearing below 0.50x.

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

- Any debt funded capex leading to deterioration in overall gearing above unity.
- Decline in scale of operations marked by TOI below Rs 100 crore on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with established track record in the material handling and industrial gear segment

Incorporated in 1936, the company has been engaged in the manufacturing of material handling equipment, gear boxes and geared motors since 1961, hence the company has a long track record of more than six decades in the material handling and industrial gear segment. Further, Mr Indrajit Sen, Managing Director who looks after the day-to-day and overall management of company's affairs is qualified Bachelor of Mechanical Engineering and has more than six decades of experience in the engineering industry.

Reputed and diversified client profile

The customer profile of the company comprises reputed players in the iron and steel, cement, mining, sugar industry etc. The credit profile of these customers is strong which reduces the counterparty credit risk to a large extent. Given only ~30% of total sales over FY20-FY22 is contributed by the top 10 customers of the company, the customer profile of the company is diversified.

Moderate order book position

ICIL's order book position stood at Rs 121.46 crore as on March 31, 2022 accounting for 0.73 times the total sales in FY22. The order book majorly comprises of orders from the material handling segment which accounts for ~77% of the total order book, followed by ~23% from the industrial gear segment. The company executes its orders in a span of 6-12 months thus providing revenue visibility in the near term. This apart, the company expects to receive additional orders during FY23.

Technological tie-ups with reputed global players

The company has technical tie-ups with reputed global players for its MHE, industrial gear and building material segments. Apart from enhancing the product portfolio, such tie-ups improve the company's market position. Further, through its linkages with global players, ICIL has been able to establish itself as supplier of capital goods to various industries like steel, sugar, cement, mining, etc.

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

Moderate financial performance marked by significant improvement witnessed in FY22 albeit subdued profitability on account of loss-making building material segment
ICIL has reported stable total operating income over FY18-FY21 which was in the range of Rs 100-Rs 150 crore. The improvement in revenue from Rs 107 cr in FY18 to Rs 134 cr in FY19 is largely driven by improved demand of MHE and industrial gear segment. However, the revenue has moderated to ~Rs 124 crore in FY20 and further deteriorated to Rs 109 crore on the back of decline in sales due to Covid-19 induced lockdown which led to shut down of manufacturing activities thereby leading to significant decline in demand of MHE products, gear boxes and geared motors. The demand across the segments has picked up significantly in FY22 largely driven by execution of capex plans which had been deferred by majority of the manufacturing companies due to onset of Covid-19.
Further, the PBILDT margin has largely been impacted over the last few years by loss making building material segment which became operational since March'16. The building material segment had been incurring losses on account of low market penetration leading to lower sales thereby impacting cash flows of the company. Hence ICIL entered into technical collaboration with a reputed multinational in FY20 and it has been able to reap the benefits of an established brand as is evident from y-o-y doubling of sales in this segment since FY20. Going forward, the company expects a turnaround in the performance in this segment with addition of new products like adhesives in the current year. The company expects to break even in this segment and clock in a turnover of ~Rs 25 crore in FY23.

Satisfactory capital structure
The company's reliance on external debt/term loan is low therefore the debt equity ratio stood low at 0.01x as on March 31, 2022. The overall gearing ratio improved from 0.30x as on March 31, 2018 to 0.09x as on March 31, 2022 on the back of reduction in debt levels. Going forward, with the improvement in profitability from the building material segment, the overall profitability is expected to further improve leading to increase in tangible networth and thereby sustenance of capital structure.

Key Rating Weaknesses
Exposed to cyclicality associated with the engineering and capital goods industry
Engineering and capital goods industry is cyclical in nature as it is strongly correlated to the economic cycles since its key users viz steel, cement, mining, infrastructure, construction sectors etc are heavily dependent on the state of economy. Further, global demand and supply situation also have a direct bearing on the domestic demand of the industry. Since ICIL is majorly engaged in the manufacturing of engineering and capital goods it is exposed to the cyclicality associated with this industry.

Competitive nature of industry
The engineering and capital good manufacturing industry is characterized by intense competition from unorganized players and large organized players, including players involved in project execution and multinationals entering the segment. This is likely to keep pressure on the profitability margins of the company.

Susceptibility of profitability to volatility in the prices of raw material prices due to fixed price contracts with customers
The company enters into fixed price contracts with its customers with no provision for price escalation to compensate for an increase in cost of raw materials. Hence, the profitability of the company is exposed to volatility in raw material prices during the execution period of the contracts. However, the company usually maintains a short interval between receipt of the order and raw material procurement which mitigates the risk of fluctuation of raw materials to some extent.

Industry Outlook
The engineering and capital goods sector is the largest of the industrial sectors in India accounting for 27% of the total factories in the industrial sector and represents 63% of the overall foreign collaborations. This sector is largely associated with the manufacturing and infrastructure sectors, is of strategic importance to India's economy. The turnover of the capital goods industry was estimated at US$ 92 billion in 2019 and is forecasted to reach US$ 115.17 billion by 2025. The sector has been de-licensed and enjoys 100% FDI. With an aim to boost manufacturing and infrastructure sector, the GOI has taken various initiatives which in turn will have a direct positive bearing on the domestic demand in engineering and capital goods industry. (Source- IBEF)

Liquidity: Adequate
The liquidity position of the company is adequate with cash accruals of Rs 8.86 crore as against debt repayments of Rs. 2.43 crore in FY23. The average utilization of fund based and non-fund based limits stood at around 70-80% and 72% respectively for the last 12 months ended April'22. The liquidity is further supported by free cash and liquid investments of ~Rs 11 crore as on March 31, 2022. This apart, the company is in process of enhancing its working capital limits from Rs 40.25 crore (fund based limits of Rs.17.25 crore and non fund based limits of Rs.23.00 crore) to Rs 60.00 crore (fund based limits of Rs.22.00 crore and non fund based limits of Rs.38.00 crore) which would aid liquidity further.

Analytical approach: Standalone

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

About the company
International Combustion (India) Limited [ICIL] was incorporated on April 22, 1936 as a trading concern. It forayed into manufacturing in 1961 and is currently engaged in the manufacturing of material handling, industrial gears and building materials. The company has manufacturing facilities in Baidybati (West Bengal), Nagpur and Auranganbad (Maharastra) and Ajmer (Rajasthan). The plants in Baidyabati and Nagpur are dedicated towards manufacturing of material handling equipment while the Auranganbad plant is engaged in the manufacturing of geared motors and gear boxes. Further, ICIL commissioned building material manufacturing plant in March 2016 with an installed capacity of 1,20,000 tons per annum.

Brief Financials (Rs. crore)	FY21(A)	FY22 (Abridged)	2MFY23 (A)
Total operating income	108.69	168.35	NA
PBILDT	-2.22	10.13	NA
PAT	-5.17	4.15	NA
Overall gearing (times)	0.16	0.09	NA
Interest coverage (times)	-0.96	5.98	NA

A: Audited, NA: Not Available

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	14.00	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantee	-	-	-	-	18.00	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	14.00	CARE BBB-; Stable				
2	Non-fund-based - ST-Bank Guarantee	ST	18.00	CARE A3				

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	Non-fund-based - ST-Bank Guarantee	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 instrument: CARE Ratings Ltd. 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.

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