Tolins Tyres Private Limited

November 09, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	36.57	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Short Term Bank Facilities	17.93	CARE A4 (A Four)	Assigned
Total Bank Facilities	**54.50 (₹ Fifty-Four Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Tolins Tyres Private Limited (TTPL) are constrained by moderate scale of operations, weak capital structure and debt coverage metrics, profit margins exposed to volatility in raw material prices. The ratings however derive strength from the vast experience of the promoters in the business, the long track record of the company and diversified clientele.

Rating sensitivities

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

- Ability of company to scale up operations to above Rs. 150 crores while maintaining PBILDT margin of above 6% on sustained basis
- Ability to improve Total Debt/ GCA below 10x.

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

- Any further increase in leverage levels of the company with overall gearing above 6x.

Detailed description of the key rating drivers

<u>Key rating weaknesses</u>

Moderate scale of operations

The scale of operations for TTPL remained moderate with income from operations in the range of Rs. 82 crores to Rs. 114 crores during the four years ended FY22 (refers to the period April 1 to March 31). The capacity utilization of the reclaim rubber division stood low in the range of 19.07 % to 26.52 % over the past three years ended FY22 while that of the Tyre division also stood low in the range of 19.57% to 44.05% over the above period on account of higher raw material costs and lower demand following covid pandemic.

Weak capital structure and debt coverage metrics

The capital structure of TTPL stood weak with an overall gearing of 4.70x (PY: 4.97x) as on March 31, 2022 due to higher working capital borrowings. The debt coverage metrics also remained weak marked by Total debt/ GCA ratio at 19.75x as on March 31, 2022 (PY: 19.80x).

Profit margins exposed to volatility in raw material prices

The major raw material for TTPL is natural rubber and rubber compounds. The high price volatility and fluctuations in supply of natural rubber due to international trade policies, fluctuations in demand and supply of natural rubber and fluctuation in oil prices and political changes can have a direct impact on the margins of the company and affect its production capacity. The PBILDT margin has been volatile in the range of 4.9% to 5.6% over the past three years ended FY22.

<u>Key rating strengths</u>

Vast experience of the promoters in the business

Tolins Tyres Private Limited was started by late Mr. K.P. Varkey in the year 1982. Dr. K.V. Tolin, son of the founder late Mr. K.P. Varkey and Managing Director of the company is associated with the company since the early 1990's. Dr. K.V. Tolin holds a Doctorate in Production Management with Special Relation to Tire Industry from Colombo University, Sri Lanka. Mrs. Annie

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

Varkey, wife of the founder is also a promoter of the company and has been associated with the company's business since 1985.

Long track record of the company

The operations of TTPL commenced in the year 1982 and the company has track record of over 4 decades. The company which commenced operations by setting up a tread rubber manufacturing unit at Mattoor, Kalady with a monthly capacity of 50 tons per month has expanded its business by getting into manufacture and sale of tyres and other tyre related products like tyres, vulcanising solutions, Repair kit, Curing Bag etc under its Brand "Tolins". The company is currently undergoing capex to increase the Tyre manufacturing capacity to 5000 units per day from the existing capacity of 1000 units per day which is expected to commence operations from December 2022.

Diversified clientele

The long track record of the company has aided it in establishing a strong and diversified client base with the top 10 clients of the company contributing to less than 20% of total sales with most of the clients being dealers and distributors. The company also supplies its agricultural tyres product range to OEMs like VST Tillers & Tractors, Kirloskar group and Kerala Agro Machinery Corporation Ltd (KAMCO) etc. The company also exports to around 40 foreign countries, including the Middle East, East Africa, Jordan, Israel, Kenya and Egypt. The exports form 12.19% (PY: 13.44%) of income in FY22.

Liquidity – Stretched

The Liquidity of the company is marked by tightly matched accruals to repayment obligations of Rs. 2.81 crores in FY23 and moderate cash balance of Rs. 0.35 crore as on March 31, 2022. The operating cycle stood elongated at 108 days in FY22 due to stretched collection period. The company has been sanctioned working capital limits of Rs. 32 crore and the average utilization stood high at 97.72 % during the period from August 2021 to July 2022. The company availed covid emergency loans of Rs. 4 crores in FY22 and Rs. 7 crores in FY21 to manage working capital requirements.

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
Auto Ancillary Companies
Manufacturing Companies

About the company

Tolins Tyres Private Limited was established in the year 1982 by late Mr. K.P. Varkey. The company is being headed by the Managing Director Dr. K.V. Tolin, who is the son of Mr. K.P. Varkey. The company has established itself as a major tyre retreading solutions provider across India and as many as 40 foreign countries, including the Middle East, East Africa, Kenya, Jordan, and Egypt. The major products of the company include two-wheeler, three-wheeler, light commercial vehicle and agricultural tyres, Precured Tread rubber and other accessories including bonding gum, curing bag, tyre flap, repair kit etc.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)	H1FY23 (P)
Total operating income	106.06	114.15	NA
PBILDT	5.92	6.25	NA
PAT	0.39	0.66	NA
Overall gearing (times)	4.97	4.71	NA
Interest coverage (times)	1.72	1.73	NA

A: Audited; P: Provisional; 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	19.07	CARE BB-; Stable
Fund-based - LT-Term Loan		-	-	November 2031	17.50	CARE BB-; Stable
Fund-based - ST-Packing Credit in Foreign Currency		-	-	-	12.93	CARE A4
Non-fund-based - ST-BG/LC		-	-	-	5.00	CARE A4

Annexure-2: Rating history for the 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-Term Loan	LT	17.50	CARE BB-; Stable				
2	Fund-based - LT-Cash Credit	LT	19.07	CARE BB-; Stable				
3	Fund-based - ST-Packing Credit in Foreign Currency	ST	12.93	CARE A4				
4	Non-fund-based - ST-BG/LC	ST	5.00	CARE A4				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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 - LT-Term Loan	Simple
3	Fund-based - ST-Packing Credit in Foreign Currency	Simple
4	Non-fund-based - ST-BG/LC	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.

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