Tinna Rubber & Infrastructure Limited (Revised)

October 19, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	52.16	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	15.84	CARE BB; Stable / CARE A4 (Double B; Outlook: Stable/ A Four)	Assigned
Total Facilities	**68.00 (₹ Sixty-Eight Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Tinna Rubber & Infrastructure Limited (TRIL) are primarily constrained by its modest though improving scale of operations, leveraged capital structure and exposure towards group entities through corporate guarantee. Further, the ratings are also constrained by risk associated with its susceptibility to raw material price volatility risk, foreign exchange fluctuation risk along with government regulatory policies and fortunes linked majorly to industries which are cyclical in nature.

The ratings, however, draw comfort from experienced promoters coupled with long track record of operations, association with reputed customer base, PAN India presence of manufacturing facilities with diversified product portfolio, moderate profitability margins and debt coverage indicators and moderate operating cycle.

Rating Sensitivities

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

- Consistent improvement in scale of operations as marked by total operating income of above Rs.300.00 crore on sustained basis.
- Improvement in the capital structure as marked by adjusted overall gearing ratio of below 1.25x.

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

- Decline in scale of operations by more than 20% from envisaged level and decline in profitability margins as marked by PBILDT and PAT margin below 10.00% and 4.00% respectively on sustained basis.
- Elongation in the operating cycle of the company beyond 100 days.
- Any further large increment in the form of corporate guarantee exposure to its associate concerns leading to deterioration in adjusted overall gearing ratio of above 2.25x.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest though improving scale of operations: TRIL's scale of operations stood modest as marked by total operating income (TOI) of Rs.237.54 crore and gross cash accruals of Rs.30.09 crore respectively, during FY22 (FY refers to the period April 1 to March 31) as against Rs.130.07 crore and Rs.9.21 crore respectively, during FY21. Though, the risk is partially mitigated by the fact that the TRIL's scale of operations has been on a growing trend registering a CAGR of about 38.81% during FY20-22. TOI improved significantly at a growth rate of 82.63% in FY22 on account of higher intake from its existing customers coupled with addition of new customer base owing to healthy demand for the products. Further, the company has achieved total operating income of Rs.82.35 crore during Q1FY23 (refers to the period from April 1, 2022 to June 30, 2022; based on provisional results) and is projecting expected turnover of Rs.299.00 crore for FY23. Aided by the growing expenditure of the government on the infrastructure sector particularly for the construction of roads and highways coupled with increase in orders from the customers pertaining to tyre industry has led to favourable growth prospects for the demand of the products offered by the company, which in turn will further leads to growth in scale of operations of the company.

Leveraged capital structure: The capital structure of the company stood leveraged as on the past three balance sheet dates ending March 31, '20-'22 mainly on account of high debt levels in the form of corporate guarantee exposure given to its associate concerns. Adjusted overall gearing ratio stood at 1.62x as on March 31, 2022 showing marginal improvement from 1.93x as on

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

March 31, 2021 mainly on account of repayment of loans coupled with improvement in net worth due to accretion of profits to net reserves. Further, the overall gearing stood at 1.51x as on June 30, 2022. However, the overall gearing ratio of the company excluding corporate guarantee given to its associate concerns stood at 0.90x as on March 31, 2022 as compared to 0.96x as on March 31, 2021.

Exposure towards group entities through corporate guarantee: TRIL has extended the corporate guarantee for the bank facilities of its associate concerns namely; "M/s Tinna Trade Limited (TTL)" and "M/s TP Buildtech Private Limited (TPB)". TTL is engaged in trading of agro-commodities and has moderate financial risk profile as marked by total operating income of Rs.334.58 crore, PAT of Rs.0.58 crore and overall gearing of 1.23x as on March 31, 2022. TPB is engaged in manufacturing of construction chemicals and has weak financial risk profile as marked by total operating income of Rs.46.82 crore, PAT of Rs.0.15 crore and overall gearing of 5.47x as on March 31, 2022. For FY22, the working capital facilities of both the entities are backed by the corporate guarantee provided by TRIL to the extent of Rs.48.20 crore. The funded financial support provided by TRIL to their group entities (TTL & TPB) shall be crucial for the company's credit profile and shall remain credit negative.

Raw material price volatility risk: TRIL's raw materials constitutes more than 50% of the total cost of production for FY22 hence, any sharp volatility in raw material prices may negatively impact the company's profitability. TRIL's products are manufactured from recycling of end of life tyres (ELT), mainly radial (TBR) tyres which are discarded after use in Medium and Heavy Commercial Vehicles (MHCV). These tyres have higher recyclable contents with better quality of rubber. This exposes the company to volatility in the prices of natural / synthetic rubber (NR / SR), as any decline in the price of NR/SR would translate into pressure on the prices of products manufactured by the company. Though, the company tries to pass on the price volatility to the end users; since, the price revision is undertaken on quarterly basis based on the input prices. However, there is a time lag of a quarter to pass on the incremental raw material price change, which exposed the company to sudden adverse fluctuations in raw material prices leading to pressure on the profitability of the company. Thus, the profitability of the company will be based on the ability of the company to absorb the increase in raw material prices.

Foreign exchange fluctuation risk along with government regulatory policies: The business operations of TRIL involve both imports and exports resulting in sales realization and cash outflow in foreign currency. TRIL exports its product in overseas market such as Australia, Europe, Africa, etc. and export contribution to total sales stood around 8% for FY22 (PY: 7%). TRIL's import procurement to raw material cost stood around 50% for FY22, thereby exposing TRIL to volatility in foreign exchange rates. Being an importer and exporter, the foreign currency risk is partially mitigated through a natural hedge, however, in the absence of any hedging policies adopted by the company, TRIL is exposed to fluctuations in the value of rupee against foreign currency which may impact its cash accruals. Further, the earnings of the company are also susceptible to strict government regulatory policies relating to tariff barriers (custom duty), non- tariffs barriers (restriction on the quantity of imports), anti-dumping duties, international freight rates and port charges. In FY22, company has registered gain of Rs.0.38 crore from foreign exchange fluctuations.

Fortunes linked majorly to industries which are cyclical in nature: The fortunes of the company are closely tied to road construction and tyre manufacturing, which in turn is highly dependent upon the growth in the infrastructure and automotive industry, since the company has generated more than 40% of its revenue in FY22 alone from these industries. Prospects of these industries are strongly corelated to economic cycles and in-turn exposed to cyclical demand patterns inherent to the industry. When downturns occur in these sectors, these products may witness decline in demand, which may put pressure on the growth of the company. However, this risk is mitigated to some extent since, the company is catering to other industries as well and thus, diversifying the risk to other sectors as well.

Key Rating Strengths

Experienced promoters coupled with long track record of operations: TRIL is currently being managed by Mr. Bhupinder Kumar Sekhri, Mr. Gaurav Sekhri and Mr. Subodh Kumar Sharma. Mr. Bhupinder Kumar Sekhri (Chairman & Managing Director) is graduate and holds vast accumulated experience of more than five decades in the rubber industry through his association with this entity and in individual capacity. He is ably supported by Mr. Gaurav Sekhri, who is also a graduate from Richmond College, London (UK) and holds experience of more than two decades in the commodity trading business and other verticals, including cargo handling operations & warehousing through his association with "M/s Tinna Trade Limited" and other associates. The promoters have adequate acumen about various aspects of business and industry dynamics which is likely to benefit the company in the long run. Further, the directors are assisted by a team of qualified managerial personnel and technical team having relevant experience in their respective fields. The company is having a considerable track record in this business which has resulted in long term relationships with both suppliers and customers.

Association with reputed customer base: TRIL has been operational for more than two decades in end of life tyres (ELT)/ waste tyres recycling business and has been able to establish healthy relationship with its customers. In light of the established relationship, the company managed to get repeat orders from its customers. The company has established business alliance with reputed companies like MRF Limited (rated 'CARE AAA; Stable/ CARE A1+'), Apollo Tyres Limited, CEAT Limited (rated 'CARE AA; Stable/ CARE A1+'), JK Tyre & Industries Limited (rated 'CARE A; Stable/ CARE A1'), Indian Oil Corporation Limited, Hindustan Colas Limited, Hyundai Construction Equipment (India) Private Limited, Mahindra CIE Automotive Limited, Rico Auto Industries Limited, Zenith Industrial Rubber Products Private Limited, IJM (India) Infrastructure Limited, etc. Association with reputed customers coupled with repeated orders enhances the image of the company in the market regarding timely deliverables with sound product quality.

PAN India presence of manufacturing facilities with diversified product portfolio: The company has established its PAN India presence by setting up its own five manufacturing facilities across different geographic locations. In North, at Panipat (Haryana) and Kalaamb (Himachal Pradesh), In South at Gummindipoondi (Tamil Nadu), In east at Haldia (West Bengal) and in West at Wada (Maharashtra). Thus, TRIL derives the comfort in terms of better market penetration and easy accessibility to a large customer base as well as ready availability of raw materials at effective prices coupled with benefits derived from lower logistic expenditures (both on transportation and storage) which in turn, helps in improving the profitability margins of the company.
The company has diversified product portfolio which includes crumb rubber modifier (CRM), Hi tensile ultrafine reclaim rubber, ultrafine tyre crumb, modified bitumen, polymer modified bitumen, bitumen emulsion, Hi carbon steel abrasives, hi carbon steel scrap and other allied products, etc. Aided by its diversified product profile, the company does not have reliance on any single product pertaining to its revenue source, which in turn stabilize their financial position, and thereby reduces the risk of financial vulnerability arises due to concentration in any particular segment / sector in near future.

Moderate profitability margins and debt coverage indicators: The profitability margins of the company largely depend upon the type of products sold to different sectors. During FY22, the enhanced operating profit backed by substantial growth in the scale of operations of the company coupled with rise in prices has led to a distinct improvement in the company's profitability margins as marked by PBILDT margin which increased to 15.86% in FY22 as against 13.67% in FY21. Further, PAT margin also improved to 7.08% in FY22 as against 0.86% in FY21 backed by increased PBILDT levels. During Q1FY23, PBILDT and PAT margin improved further and stood at 14.23% and 7.32% respectively.
On account of moderate profitability margins, the debt coverage indicators of the company stood moderate as marked by interest coverage ratio and total debt to GCA which stood at 4.04x and 3.96x respectively, for FY22 as against 1.79x and 13.87x respectively for FY21. The improvement is on the back of substantial increase in PBILDT owing to considerable growth in its scale of operations, leading to higher gross cash accruals. During Q1FY23, the interest coverage ratio and total debt to GCA stood at 6.98x and 14.02x respectively.

Moderate operating cycle: The operations of the company stood moderate marked by operating cycle of 74 days for FY22 as against 116 days for FY21 on account of efficient management of its inventory holding coupled with improved realization from its customers. Owing to large product portfolio, the company is required to maintain adequate inventory at each processing stage for smooth running of its production processes and to ensure prompt delivery to its customers resulting in an average inventory holding period of around 52 days for FY22. The company has to offer liberal credit period of around 1-2 months to its customers as majority of them are large sized players which possess high bargaining power as compared to other clients of TRIL resulting in an average collection period of 46 days for FY22. The company receives payable period of around 1-2 month from its suppliers resulting in an average creditor's period of 23 days for FY22. The working capital limits remained fully utilized for the past 12 months period ending September, 2022.

Liquidity: Adequate
The liquidity position of the company remained adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The company has reported adequate gross cash accruals to the extent of Rs.30.09 crore during FY22, Rs.8.11 crore during Q1FY23 and is expected to generate envisage GCA of Rs.36.65 crore for FY23 against repayment obligations of Rs.6.79 crore in same year. However, the working capital limits stood fully utilized for the past 12 month's period ending September 2022. Further, the company has free cash & bank balances which stood at Rs.1.18 crore as on March 31, 2022.

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
Delhi based Tinna Rubber & Infrastructure Limited (TRIL) (erstwhile known as Tinna Overseas Limited) was incorporated as a public limited company (Listed) in March, 1987. The directors of the company are as namely; Mr. Bhupinder Kumar Sekhri, Mr. Gaurav Sekhri, Mr. Subodh Kumar Sharma, Mr. Ashish Madan, Mr. Sanjay Kumar Jain, Mr. Ashok Kumar Sood, Mr. Dinesh Kumar and Mrs. Promila Kumar. The company is engaged in the processing of end of life tyres (ELT)/ waste tyres to produce crumb rubber powder for the manufacturing of crumb rubber modifier (CRM), Hi tensile ultrafine reclaim rubber, ultrafine tyre crumb, modified bitumen, polymer modified bitumen, bitumen emulsion, Hi carbon steel abrasives, Hi carbon steel scrap and other allied products, etc. The company has its own five manufacturing facilities located at Panipat (Haryana), Gummindipoondi (Tamil Nadu), Haldia (West Bengal), Wada (Maharashtra) and Kalaamb (Himachal Pradesh). The company has an installed capacity to process 72,000 MTs per annum of end of life tyres (ELT)/ waste tyres.
The company is having two associate concerns namely; "M/s Tinna Trade Limited" (incorporated in 2009) engaged in the trading of agro-commodities like grains, pulses, proteins and oil seeds and "M/s TP Buildtech Private Limited" (incorporated in 2012) engaged in the manufacturing of construction chemicals (admixtures) and one wholly owned subsidiary namely; "M/s Tinna Rubber B.V., Netherlands" (established in 2021; project phase entity). It is set up with an aim to engaged in the business of waste recycling, end of life tyre recycling and trading of waste materials.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23*
Total operating income	130.07	237.54	NA
PBILDT	17.77	37.68	NA
PAT	1.12	16.82	NA
Overall gearing (times)	0.96	0.90	NA
Interest coverage (times)	1.79	4.04	NA

A: Audited; NA: Not Available
**refers to the period from April 1, 2022 to September 30, 2022.*

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 firm: 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-Term Loan		-	-	March, 2031	21.28	CARE BB; Stable
Fund-based - LT-Working Capital Limits		-	-	-	22.00	CARE BB; Stable
Fund-based - LT-Working capital Term Loan		-	-	November, 2027	8.88	CARE BB; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	0.84	CARE BB; Stable / CARE A4
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	15.00	CARE BB; Stable / 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	21.28	CARE BB; Stable				
2	Fund-based - LT-Working capital Term Loan	LT	8.88	CARE BB; Stable				
3	Fund-based - LT-Working Capital Limits	LT	22.00	CARE BB; Stable				
4	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	15.00	CARE BB; Stable / CARE A4				
5	Fund-based/Non-fund-based-LT/ST	LT/ST*	0.84	CARE BB; Stable / CARE A4				

*Long term/Short term.

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-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Fund-based - LT-Working capital Term Loan	Simple
4	Fund-based/Non-fund-based-LT/ST	Simple
5	Non-fund-based - LT/ 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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