International Combustion India Limited

June 30, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	27.00 (Enhanced from 23.50)	CARE BBB-; Stable	Reaffirmed
Short Term Bank Facilities	38.00 (Enhanced from 36.50)	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in ratings assigned to the bank facilities of International Combustion India Limited (ICIL) derives strength from experienced promoters with established track record in the material handling and industrial gear segment, reputed and diversified clientele and moderate order book position providing revenue visibility in the near term. The rating also draws comfort from technological tie-ups with reputed global players which enhances the competitive position of ICIL along with satisfactory capital structure. The rating also factors in improvement in financial performance of the company in FY23 (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 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, on collaboration with a reputed global player, this segment's sales have improved and losses have reduced and it is expected to break even in Q2FY24 with the introduction of newer products in April 2023. 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. Further, completion of the ongoing projects without any further time and cost overrun will be key rating monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- 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

- Any major 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.

Analytical approach: Standalone

Outlook: Stable

The company is expected to sustain its operational and financial performance amidst healthy order book position and benefits derived from collaboration with reputed global players.

Key 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, 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 around 24% of total sales in FY23 (28% in FY22) is contributed by top 10 customers of the company, the customer profile of the company is diversified.

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

Moderate order book position
ICIL's order book position stood moderate at Rs 164.93 crore as on May 31, 2023 (Rs 130.24 crore as on March 01, 2023) accounting for 0.74 times the total operating income in FY23. The company executes its orders in a span of 6-12 months thus providing revenue visibility in the near term.

Technological tie-ups with reputed global players
The company has technical tie-ups with reputed global players for its 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. As enunciated by the management, it has discontinued technological tie-up for its MHE segment in December 2022, hence it is no longer required to pay royalty from January 2023 onwards, however it can continue to use the brand name of the reputed player for selling its products under the MHE segment.

Improvement in scale of operations and profitability in FY23 albeit building material division continues to remain loss making
ICIL has reported increase in total operating income by 32% to Rs 221.88 crore in FY23 (Rs 168.35 crore in FY22) on account of higher execution of work orders largely driven by improved demand of MHE and industrial gear segment. The MHE segment continued to remain the largest contributor to the overall revenue and constituted around 60% of the total revenue in FY23 followed by industrial gear segment (30%) and building material segment (10%). Further, the PBILDT margin has improved from 6.02% in FY22 to 7.51% in FY23. The margins are still subdued on account of loss-making building material division (BMD) which reported loss mainly on account of deferral of launch of new products from December 2022 to April 2023. The management has enunciated that the performance of the building material segment will improve from Q2FY24 onwards with the introduction of new products in April 2023 and the segment will break even in the current fiscal. Going forward, with the introduction of new products in BMD and discontinuance of payment of royalty for the MHE segment are expected to lead to further improvement in profitability margins.

Satisfactory capital structure
The overall gearing ratio stood comfortable at 0.13x as on March 31, 2023 (0.09x as on March 31, 2022). As on March 31, 2023, the o/s balance of term loan was nil, however; the company had received sanction of term loan amounting to Rs.5 crore from HDFC Bank in December 2022 (first disbursement in April 2023) for funding the ongoing capex in its Aurangabad plant. This apart, the company is also proposing to avail further term loan from banks for funding the capex requirement in its Nagpur plant. In addition, the company is also planning to increase its working capital limits (Fund based and Non-Fund Based) from Rs 60 crore to Rs 80 crore in the current fiscal. The availment of these term loans along with enhancement of working capital limits is expected to lead to moderation in overall gearing, however the capital structure will continue to remain satisfactory.

Key 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 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.

Update on the ongoing capex
The company has undertaken an expansion project in Aurangabad plant at total project cost of Rs 15.45 crore. The company proposes to fund the project through a mix of debt and internal accruals. Till date, the company has spent Rs 3.14 crore on this

project and also received sanction of term loan of Rs 5 crore from HDFC Bank in December 2022. The project is expected to be completed by September 2023.
The company has also undertaken expansion project in Nagpur plant at a total cost of Rs 12.80 crore to be funded through a mix of debt and equity. Till date, the company has spent around Rs 4.60 crore on this project entirely out of internal accruals. ICIL has also applied for term loan of Rs 5 crore from a bank for this project. The project is expected to be completed by December 2023.
The scope of these two projects have increased as against the one considered at the time of last review thereby leading to higher than anticipated term loan requirement for these projects. Completion of these projects within envisaged timelines and cost will remain key monitorable.

Liquidity: Adequate
The liquidity position of the company is adequate with cash accruals of Rs 14.24 crore as against debt repayments of Rs. 1.02 crore in FY23. Going forward, the cash accruals are expected to be sufficient to meet the debt repayment obligations of FY24. The average utilization of fund-based limits stood at around 42% for the 12 months ended May 2023. The liquidity is further supported by free cash and liquid investments of around Rs 13.53 crore as on March 31, 2023.

Environment, social, and governance (ESG) risks- Not Applicable

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
Policy on Withdrawal of Ratings

About the company and industry
Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Other Industrial Products

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 (₹ crore	March 31, 2022 (A)	March 31, 2023 (Abridged)
Total operating income	168.35	221.88
PBILDT	10.13	16.66
PAT	4.15	8.31
Overall gearing (times)	0.09	0.13
Interest coverage (times)	5.98	8.20

A: Audited, Note: 'the above results are latest financial results 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 instrument/facility: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

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	-	-	-	-	22.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	-	May'28	5.00	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantee	-	-	-	-	38.00	CARE A3

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	22.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (27-Mar-23) 2)CARE BBB-; Stable (08-Jul-22)	-	-
2	Non-fund-based - ST-Bank Guarantee	ST	38.00	CARE A3	-	1)CARE A3 (27-Mar-23) 2)CARE A3 (08-Jul-22)	-	-
3	Fund-based - LT-Term Loan	LT	5.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable	-	-

						(27-Mar-23)		

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities- Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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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About us:

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