Tinna Rubber & Infrastructure Limited

August 16, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	59.35 (Enhanced from 52.16)	CARE BB+; Stable	Revised from CARE BB; Stable
Long Term / Short Term Bank Facilities	19.15 (Enhanced from 15.84)	CARE BB+; Stable / CARE A4+	Revised from CARE BB; Stable / CARE A4

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Tinna Rubber & Infrastructure Limited (TRIL) takes into consideration growing scale of operations reflecting a growth rate of ~29% in FY23 with adequate gross cash accruals and improvement in capital structure. The ratings, further, continue to draw comfort from the 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. The ratings, however, continue to remain constrained by its high exposure towards group entities through corporate guarantee, project execution and stabilization risk, foreign exchange fluctuation risk along with government regulatory policies, raw material price volatility risk and its fortunes linked majorly to industries which are cyclical in nature.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent improvement in scale of operations as marked by total operating income of above Rs.400.00 crore on sustained basis.
- Improvement in the capital structure as marked by adjusted overall gearing ratio of below 1.25x.

Negative factors

- 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.

Analytical approach: Standalone

Outlook: Stable

The "Stable" outlook reflects that entity will continue to benefit from the extensive experience of the promoters and management in the industry along with its established relationship with the reputed customers. Further, TRIL is expected to sustain the growth in scale of operations, profitability margins and gradual completion of the ongoing expansionary capex, leading to sustainable credit risk profile.

Detailed description of the key rating drivers:

Key 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 a graduate and holds an accumulated experience of more than five decades in the rubber industry through his association with this entity and in the individual capacity. He is ably supported by Mr. Gaurav Sekhri (Joint Managing Director), who is also a graduate from Richmond College, London (UK) and holds an 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 entities. The promoters have an 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

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

managerial personnel and a technical team having relevant experience in their respective fields. The company is having a considerable track record in this business which has resulted in the long-term relationships with both suppliers and customers.

Growing scale of operations with adequate gross cash accruals: The scale of operations of the company has been on a growing trend registering a CAGR of about 33.94% during (FY21-23). TRIL's total operating income has improved reflecting a growth rate of ~29.00% and stood at Rs.296.20 crore in FY23 as against Rs.229.62 crore in FY22 primarily on account of higher intake from its existing customers coupled with addition of new customer base owing to healthy demand for the products. The company has adequate gross cash accruals which stood at Rs.28.07 crore in FY23 as against Rs.24.53 crore in FY22. Further, the company has achieved total operating income of Rs.80.75 crore during Q1FY24 (refers to the period from April 1, 2023 to June 30, 2023; based on provisional results) and is expected to clock turnover of ~Rs.364.11 crore for FY24. 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 along with the addition of new products which includes Thermo Plastic Elastomer (TPE), Tyre Derived Energy (TDE) and Crumb Rubber (Rubber Granulates) in its existing product profile in near term will led to favourable growth prospects for the demand of the products offered by the company, which in turn will impetus growth in scale of operations of the company.

Improvement in capital structure: The capital structure of the company as marked by adjusted overall gearing ratio improved and stood at 2.18x as on March 31, 2023 as against 2.34x as on March 31, 2022 primarily on account of repayment of loans coupled with accretion of profits to net reserves. Further, with no incremental support to the group entities in the form of corporate guarantee, the adjusted overall gearing is expected to remain below 2.00x over the medium term.

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 has been able to acquire repeated orders from its existing 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, Alliance Tyre Group (Yokohama), Ralson Tyres, 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. The 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 India as well as outside India. It has four locations in India; In North, at Panipat (Haryana), In South at Gummindipoondi (Tamil Nadu), In east at Haldia (West Bengal) and In West at Wada (Maharashtra) and one in overseas Sultanate of Oman. Further, company has also undertaken a capex for setting up a new plant in Varle (Wada), Maharashtra which will be operational from Q4 of FY23. 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 over the medium term.
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. Further, in Q4 of FY23, the company will make addition of new products in its product profile which includes Thermo Plastic Elastomer (TPE), Tyre Derived Energy (TDE) and Crumb Rubber (Rubber Granulates). 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 in the 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. PBILDT margin of the company declined and stood at 12.82% in FY23 as against 16.41% in FY22 on the back of proportionate increase in overhead expenses such as employee cost, marketing expenses, etc. However, PAT margin improved and stood at 7.18% in FY23 as against 4.55% in FY22 mainly due to earlier year tax adjustments to the tune of Rs.5.56 crore in FY22. During Q1FY24, PBILDT and PAT margin improved and stood at 15.47% and 8.66% respectively. Going forward, with the stabilization in the raw material prices along with the addition of new products in its existing product profile in the near term and the expected uptick in demand for the products from infrastructure push in the pre-election year which will lead to further improvement in PBILDT margins between 15.00%-16.00% and PAT margin to 8.00%-9.00% in the coming year.

Further, on account of moderate profitability margins, the debt coverage indicators of the company continue to remain moderate as marked by interest coverage ratio and total debt to GCA which stood at 4.72x and 5.23x respectively, for FY23 as against 4.04x and 4.85x respectively for FY22. During Q1FY24, the interest coverage ratio and total debt to GCA stood at 6.74x and 17.61x respectively and is expected to remain at similar levels over the medium term.

Moderate operating cycle: The operations of the company stood moderate marked by operating cycle of 58 days for FY23 as against 66 days for FY22 on account of efficient inventory holding management 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 51 days for FY23. 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 40 days for FY23. The company receives payable period of around 1-2 month from its suppliers resulting in an average creditor's period of 33 days for FY23. The working capital limits remained almost 70%-80% for the past 12 months period ending July, 2023.

Key weaknesses

High 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)". TPB is engaged in manufacturing of construction chemicals and has moderate financial risk profile as marked by total operating income of Rs.60.83 crore, PAT of Rs.1.12 crore and overall gearing of 1.52x as on March 31, 2023. TTL is engaged in trading of agro-commodities and has moderate financial risk profile as marked by total operating income of Rs.294.12 crore, Loss of (Rs.2.64) crore and overall gearing of 1.22x as on March 31, 2023. For FY23, the working capital facilities of both the entities are backed by the corporate guarantee provided by TRIL to the extent of Rs.86.42 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.

Project execution and stabilization risk: TRIL has undertaken two capex plans with total project cost of ~Rs.38.94 crore for the enhancement of its existing capacities and addition of new product profile in the business; one capex is of ~Rs.36.51 crore for setting up a new plant to process end of life passenger car radial (PCR) tyre to produce Tyre Derived Energy (TDE) and Rubber Granulates at an installed capacity of 60,000 MT per annum at Varle, Maharashtra. The second one of ~Rs.2.43 crore for setting up a Thermo Plastic Elastomer (TPE) manufacturing plant at its existing facility in Panipat, Haryana at an installed capacity of 6000 MT per annum. Both the capex is proposed to be funded through term loan of ~Rs.28.00 crore and rest ~Rs.10.94 through internal accruals. However, the projects are at very nascent stage and the debt is yet to be tied-up. The facility will commence its commercial operations from Q4 of FY23. As on July 31, 2023, the company has incurred ~Rs.5.00 crore which is ~13% of the total project cost towards purchase of land and advances towards purchase of plant & machineries. The same have been funded entirely through internal accruals. The commencement of the project with the envisaged time and cost remains a crucial from analytical perspective in the consideration of funding yet to be tied up. Furthermore, post project implementation risk in the form of stabilization and streamlining of operations to achieve the envisaged scale of business and risk associated with the services in the light of competitive nature of industry is yet to been seen.

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 6% for FY23 (PY: 5%). TRIL's import procurement to raw material cost stood around 60% for FY23, 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 FY23, company has registered gain of Rs.0.77 crore from foreign exchange fluctuations.

Raw material price volatility risk: TRIL's raw materials constitutes more than 55% of the total cost of production for FY23 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 largely depend on the ability of the company to absorb the increase in raw material prices.

Fortunes linked majorly to industries which are cyclical in nature: The fortunes of the company are closely tied to road construction and tyre manufacturing companies, 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 FY23 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.

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 gross cash accruals (GCA) to the extent of Rs.28.07 crore during FY23, Rs.8.26 crore in Q1FY24 and is expected to generate envisage GCA of Rs.35.48 crore for FY24 against repayment obligations of Rs.5.78 crore in same year. Further, the average utilization of its working capital limits stood around 70%-80% for the past 12 month's period ending July, 2023. The company has an adequate free cash and bank balances which stood Rs.4.24 crore as on June 30, 2023.

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 and industry

Industry classification

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

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, Mrs. Bharti Chaturvedi and Dr. Krishna Prapoorna. 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) and Wada (Maharashtra) and one in overseas Sultanate of Oman. The company has an installed capacity to process 90,000 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 two wholly owned subsidiaries namely; "M/s Tinna Rubber B.V., Netherlands" (established in September, 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 and "M/s Global Recycle LLC, Oman" (acquired in March, 2023 and production started in July, 2023 at an installed capacity of 6,000 MTs per annum). It was acquired with an aim to expand its end of life tyres (ELT)/ waste tyres recycling business in overseas country.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)*
Total operating income	229.62	296.20	80.75
PBILDT	37.68	37.97	12.54
PAT	10.45	21.26	7.02
Overall gearing (times)	0.90	0.62	0.56
Interest coverage (times)	4.04	4.72	6.74

A: Audited; UA.: Unaudited; Note: 'the above results are latest financial results available'
*refers to the period from April 1, 2023 to June 30, 2023.

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 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-Term Loan		-	-	March, 2031	18.87	CARE BB+; Stable
Fund-based - LT-Working Capital Limits		-	-	-	33.00	CARE BB+; Stable
Fund-based - LT-Working capital Term Loan		-	-	November, 2027	7.48	CARE BB+; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	0.15	CARE BB+; Stable / CARE A4+
Non-fund-based - LT/ ST-BG/LC		-	-	-	19.00	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 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-Term Loan	LT	18.87	CARE BB+; Stable	-	1)CARE BB; Stable (19-Oct-22)	-	-
2	Fund-based - LT-Working capital Term Loan	LT	7.48	CARE BB+; Stable	-	1)CARE BB; Stable (19-Oct-22)	-	-
3	Fund-based - LT-Working Capital Limits	LT	33.00	CARE BB+; Stable	-	1)CARE BB; Stable (19-Oct-22)	-	-
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	19.00	CARE BB+; Stable / CARE A4+	-	1)CARE BB; Stable / CARE A4 (19-Oct-22)	-	-
5	Fund-based/Non-fund-based-LT/ST	LT/ST*	0.15	CARE BB+; Stable / CARE A4+	-	1)CARE BB; Stable / CARE A4 (19-Oct-22)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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-BG/LC	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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