ITL Industries Limited

April 02, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	3.50	**CARE BBB; Stable; ISSUER NOT COOPERATING* (Triple B; Outlook: Stable ; ISSUER NOT COOPERATING)***	**"Issuer not cooperating; Based on best available information"**
Long-term/Short-term Bank Facilities	14.00	**CARE BBB; Stable/CARE A3+; ISSUER NOT COOPERATING* (Triple B; Outlook: Stable/A Three Plus ; ISSUER NOT COOPERATING)***	**"Issuer not cooperating; Based on best available information"**
Short-term Bank Facilities	6.50	**CARE A3+; ISSUER NOT COOPERATING * (A Three Plus; ISSUER NOT COOPERATING)**	**"Issuer not cooperating; Based on best available information"**
Total	**24.00 (Rupees Twenty Four crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

CARE has been seeking information from ITL Industries Limited (ITL) to monitor the ratings vide e-mail communications/ letters dated March 07, 2019, March 11, 2019, March 25, 2019 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the ratings on the basis of the available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. Further, ITL has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The ratings on ITL's bank facilities will now be denoted as CARE BBB; Stable/A3+; ISSUER NOT COOPERATING*.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

The ratings assigned to the bank facilities of ITL Industries Limited (ITL) derive comfort from qualified and experienced management with its long track record of operations in the industry and diversified and well known customer and supplier base. The ratings, further, get strength from diversified revenue stream and its financial risk profile marked by comfortable profitability margins and comfortable solvency position.

These strengths offset to an extent on account of its working capital intensive nature of operations marked by elongated operating cycle, its presence in highly competitive industry and vulnerability of margins to fluctuation in raw material prices. The ratings, further, constrained on account of project implementation risk associated with it.

Detailed description of the key rating drivers

At the time of last rating on September 28, 2018, the following were the rating strengths and weaknesses (Updated from Bombay Stock Exchange).

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and qualified management in the industry

ITL is promoted by Mr. Manohar Singh Jain, Director, who has business experience of more than five decades. He is assisted by his two sons, Mr. Rajendra Singh Jain, Managing Director and Mr. Mahendra Singh Jain, Joint Managing Director, who looks after the overall management of the company. The board of directors also includes three independent directors who also have rich experience in the engineering industry. The top management is assisted by second tier management. The company also has Research and Development (R&D) team which looks after continuous up gradations of existing machines as well as development of new machines according to needs of the customers in the market.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

Long track record of operations with diversified and well known customer base as well as supplier base

With the long standing presence in the industry, the management has established good relationships with the customers and suppliers. Due to quality of products, ITL has been receiving repeat orders from its customers.

ITL has diversified order book across various end user industries such as general engineering, forging, automotive, auto components, power and metals. ITL through its technical capabilities and strong R&D focus continues to invest in developing machines to cater to the specific demands of these customers. ITL has long-standing relationship with these customers. The diversified customer and supplier base is also reflected by top five customers and supplier contributing around 11.40% of total sales and 50.14% of total purchases during FY17 (FY refers to the period April 01 to March 31).

Diversified revenue stream

The entire spectrum of the revenue of ITL is well diversified and gets generated from various sources which reduce dependence of income on any solitary source. The company manufactures various types of machines as well as tools. Further, ITL is also an authorized distributor of EATON Fluid Power Corp. for Hydraulic Equipment's & Components for the State of Madhya Pradesh, Rajasthan, New Delhi and Punjab. During FY17, it has generated 74.00% (77.55% of gross sales in FY16) of gross sales from manufacturing division and 32.90% (Rs.16.76 crore which constituted 29.67% in FY16) of gross Sales from trading division. Further, ITL is having presence in domestic market as well in foreign market. Further, revenue from export improved to Rs. 2.63 crore in FY17 from Rs. 1.62 crore in FY16. Further, in FY17 the ITL has entered into an agreement with Hyd-Mech Group, Germany, to sell products manufactured by ITL in foreign market. During FY17, Total Operating Income (TOI) of the company has improved significantly by 24.11% over FY16 mainly on account of increase in sales of manufactured products as well as traded goods in domestic market as well as in foreign market.

Improvement in Total Operation Income and moderate profitability margins

During FY18, TOI of the company has improved by 19.57% over FY17 and stood at Rs. 83.83 crore mainly on account of increase in sales of manufactured products.

Further, profitability margins of the company stood comfortable as reflected by PBILDT and PAT margins of 10.59% and 6.12% respectively in FY18. During FY18, PBILDT margin of the company has dipped by 36 bps over FY17. Despite decline in PBILDT margin, PAT margin has improved by 79 bps in FY18 over last financial year owing to decrease in interest expenses. In FY18, Gross Cash Accruals of the company has improved by 27.79% over FY17 and stood at Rs. 6.07 crore.

Comfortable capital structure and debt coverage indicators

The capital structure of the company stood comfortable with an overall gearing of 0.35 times as on March 31, 2018, improved from 0.47 times as on March 31, 2017 owing to decline in total debt as on balance sheet date and accretion of profit to reserves. Further, the debt service coverage indicators of the company stood comfortable marked by total debt to GCA of 1.85 times as on March 31, 2018, improved from 2.70 times as on March 31, 2017 owing to increase in GCA and decline in total debt level. Further, interest coverage has improved from 3.38 times in FY17 to 6.80 times in FY18.

Key Rating Weakness

Working capital intensive nature of operations

Due to high inventory, operating cycle stood elongated at 139 days in FY18, improved from 171 days in FY17 owing to improvement in debtors and inventory holding period. Due to high inventory, the current ratio stood moderate at 1.67 times as on March 31, 2018, however, quick ratio remained below unity at 0.95 times as on March 31, 2018.

Presence in highly competitive machine tools industry

In machine tool industry, continuous technological changes are taking place at rapid pace. In the absence of any technological tie up with established player in the industry, ITL will have to continuous put focus on in house development of the technology and add new models to its existing product line to remain competitive in the industry.

Vulnerability of margins to fluctuation in raw material prices

Raw material constitutes a major portion of the company's cost structure and given the competitive industry, the company has limited power to pass on the increase in raw material pricing to the consumer.

Analytical approach: Standalone

Applicable Criteria

Policy in respect of Non-cooperation by issuer
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology- Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

Indore based ITL Industries Limited (ITL) was formed as a partnership firm in 1985 and subsequently, converted to private limited company and then to public limited company in 1989. The company manufactures manual and automatic metal cutting machines such as band saw & circular saw machines and pipe & tube manufacturing machines. ITL is also the supplier of bimetal band saw blades, hacksaw blades and other tools. The plant of the company is located at plot of approx. 4 Acres having covered area of about 108,000 square feet and additional land available for shed expansion approx. 44,000 square feet.

Further, ITL is also an authorized distributor of United State based EATON Fluid Power Corp. for hydraulic equipments & components for the state of Madhya Pradesh, Rajasthan, NCR and Punjab.

Furthermore, ITL has launched web portal by the name of 'www.esupplyworld.com' for industrial supply division wherein about 120,000 products required by the engineering industries are traded online through a dynamic web portal. This web portal is operational from November 2013.

The company has got recognition for its in house Research & Development unit from Ministry of Science and Technology (Government of India).

Furthermore, the promoters of ITL have also promoted Remswegs Marketing Private Limited (RMPL), Indore Tools Private Limited (ITPL), M. M. Metals Private Limited (MMM) and Dimart Engineering Private Limited (DEPL)..

(Rs. crore)

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	70.11	83.83
PBILDT	7.68	8.88
PAT	3.74	5.13
Overall gearing (times)	0.47	0.35
Interest coverage (times)	3.38	6.80

A: Audited

Status of non-cooperation with previous CRA: Brickworks has conducted the review on the basis of best available information and has classified ITL Industries Limited as "Not cooperating" vide its press release dated April 26, 2018 .

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	May 2025	3.50	CARE BBB; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Fund-based - LT/ ST-Cash Credit	-	-	-	14.00	CARE BBB; Stable / CARE A3+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Fund-based - ST-Standby Line of Credit	-	-	-	1.00	CARE A3+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - ST-Letter of credit	-	-	-	2.00	CARE A3+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - ST-Bank Guarantees	-	-	-	3.50	CARE A3+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	3.50	CARE BBB; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE BBB; Stable (28-Sep-18)	-	-	-
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	14.00	CARE BBB; Stable / CARE A3+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE BBB; Stable / CARE A3+ (28-Sep-18)	-	-	-
3.	Fund-based - ST-Standby Line of Credit	ST	1.00	CARE A3+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE A3+ (28-Sep-18)	-	-	-
4.	Non-fund-based - ST-Letter of credit	ST	2.00	CARE A3+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE A3+ (28-Sep-18)	-	-	-
5.	Non-fund-based - ST-Bank Guarantees	ST	3.50	CARE A3+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE A3+ (28-Sep-18)	-	-	-

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