International Conveyors Limited

March 13, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bank Facilities	28.00 (enhanced from 18.00)	**CARE BB+; Positive (Double B Plus; Outlook: Positive)**	**Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)**
Short-term Bank Facilities	1.38	**CARE A4+ (A Four Plus)**	**Reaffirmed**
Long/Short term Bank facilities	25.00	**CARE BB+; Positive/ CARE A4+ (Double B Plus; Outlook: Positive / A Four Plus)**	**Revised from CARE BB+; Stable/ CARE A4+ (Double B Plus; Outlook: Stable/ A Four Plus)**
Total Facilities	**54.38 (Rs. Fifty four crore and thirty eight lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of International Conveyors Limited (ICL) continue to be constrained by the small scale of operations, risk arising out of volatility in raw-material prices, working capital intensive nature of operations, exposure to exchange rate fluctuation and high exposure to group companies. However, the ratings continue to draw comfort from the long experience of the promoters in the industry, operation in niche segment with few competitors and reputed clientele portfolio.

The ratings also take note of the improvement in order book position as on December 31, 2019 along with improvement in profitability and debt coverage indicators in 9MFY20 (refers to the period from April 01 to December 31).

Outlook: Positive

The outlook has been revised to positive on the expectation of improvement in the scale of operations and profitability with steady revenue visibility arising from the present order book. Further, the debt level is expected to reduce substantially going forward with reduction in exposure to group entities. The outlook may be revised to 'Stable' in case of lower than expected improvement in sales and profitability or inability to reduce debt level and exposure to group entities.

Rating Sensitivities

Positive Factors

- Increase in scale of operations such that operating income remains above Rs.110 crore and sustaining the improvement in operating margin witnessed in 9MFY20.
- Reduction in exposure to group companies and debt level.
- Improvement in order book.

Negative Factors

- Inability to increase scale of operations or reduction in operating profitability.
- Significant deterioration in gross operating cycle.
- Further increase in debt funded exposure to group entities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations

ICL is a relatively smaller player in the solid woven PVC conveyor belt market in the global context and faces stiff competition from well established players both in the domestic market and international market.

Risk arising out of volatility in raw-material prices

Major raw-materials used in the process of manufacturing conveyor belts are yarn (polyester, cotton & spun) and chemicals (PVC resin, Phosphate Plasticizer & others). Major raw-materials are derivatives of crude oil and the prices are volatile in

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

nature. The profitability of the company remains exposed to volatility in raw material prices. However, in the recent orders received, the company has some amount of escalation clause which mitigates the risk to an extent.

Exposure to foreign risk fluctuations

ICL has an exposure in foreign currency in the form of raw materials import like PVC Resin and export of the conveyor belts to US, Canada, etc. This foreign currency risk is covered by using foreign exchange forward contracts and cross currency swap contracts.

High exposure to group and associate companies

ICL's funded exposure (in terms of investments and advances) to its group companies increased from Rs.167.56 crore as on Mar 31, 2018 (forming 102% of net worth) to Rs.190.30 crore as on March 31, 2019 (constituting 120% of net worth). The majority of the exposure was in Elpro International Ltd (Elpro) in the form of equity shares of Rs.108.71 crore and 12% cumulative preference shares valued at Rs.53.15 crore. However, the company has received Rs.40 crore in 9MFY20 on part surrender of preference shares. Going forward, the exposure to group entities is expected to reduce further.

Working capital intensive nature of operations

The company's operation is working capital intensive in nature due to requirement of holding inventories for lead time involved in import of raw-material and time involved in inspection of product quality by the customer and high credit period offered to its customers due to general practice in the industry. Further, increase of debtors' level is also related to long term project contracts wherein the payment is received in 30-90 day after the execution of an order (2 months for production and 2 months for delivery). Therefore, it results in long operating cycle. However, the operating cycle has witnessed improvement in FY19 to 124 days from 183 days in FY18.

Key Rating Strengths

Experienced Promoters

ICL, incorporated in 1973, was promoted by Mr. Rajendra Kumar Dabriwala of Kolkata. Mr. Dabriwala, aged 77 years, is a second generation entrepreneur, who started his career from his family managed coal mining business. However, with rising demand for PVC conveyor belts in mining industry, Mr. Dabriwala ventured into manufacturing of PVC conveyor belts. The promoter through his group companies is holding around 15% stake in PNB Metlife India Insurance Company Limited.

Operating in a niche segment with few competitors in the domestic segment

The company is engaged in a niche segment i.e. manufacturing and marketing of solid woven PVC conveyor belts mainly used in underground mines (coal, potash). ICL is one of the major producers of PVC conveyor belt in the domestic market. The growth in demand is linked to growth of underground mining operations.

Reputed client portfolio and improvement in order book

ICL's PVC conveyor belt is mainly used in underground mining for transportation of minerals. In the domestic market, Coal India Ltd is the major client of the company. As the domestic mining industry is mainly on open-cast route, a large part of the sales is to the international market (such as USA, Canada, etc). As a result, exports accounted for about 61% of total sales of conveyor belts in FY19 (as against 44% in FY18). The order book improved to around Rs.80 crore as on Dec.31, 2019 (Rs.32 crore as on Sep.30, 2018) which is to be executed by Q1FY21. Further, the company has entered into a six year contract with a Canadian customer which provides revenue visibility in the medium term.

Improvement in profitability in 9MFY20

Total operating income of the company had improved on y-o-y basis by around 59% from Rs.49.69 crore in FY18 to Rs.79.08 crore in FY19 on account of higher execution of orders and improvement in sales realisation. PBILDT margin, however, declined due to low margin in the orders.

ICL continued to report net loss in FY19 with significant increase in interest cost. The debt level had increased to meet higher working capital requirement.

In 9MFY20, however, the performance improved and ICL reported a profit of Rs.6.42 crore (loss of Rs.3.89 crore in 9MFY19) on total operating income of Rs.63.97 crore (Rs.56.15 crore in 9MFY19). This is on account of higher export sales (around 70%) leading to better margins.

Improvement in debt coverage indicators in 9MFY20 and moderate capital structure

The short term debt of the company increased from Rs.68.13 crore as on March 31, 2018 to Rs. 107.66 crore as on March 31, 2019 on account of a short term loan of Rs.50 crore availed for working capital requirement and increase in investment in Elpro. The loan was fully repaid in June 2019 with part recovery of preference share investment from Elpro and increase in group ICDs, including from the group. As a result the overall gearing of the company which had moderated from 0.41x as on March 31, 2018 to 0.68x as on March 31, 2019, witnessed improvement to 0.48x as on Dec.31, 2019.

The PBILDT interest coverage ratio improved to 1.31x in 9MFY20 as against 0.05x in FY19. Total debt/GCA was also moderate as 6.53x in 9MFY20.

Liquidity: Adequate

The company has no term debt repayment obligations and there is no major capex planned in the medium term. The fund based working capital utilization remained moderate at about 64% for the 12 months ended November 2019. The short term loans are repayable out of reduction in exposure to group entities.

Analytical approach: Standalone

ICL was assessed on a consolidated basis earlier. However, majority of subsidiaries of the company are foreign entities and CARE has considered a standalone view factoring in the support to be extended to these subsidiaries.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to credit ratings
Policy on Default Recognition
Care's Methodology for Manufacturing Companies
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments
Consolidation & Factoring Linkages in Rating

About the Company

ICL, promoted in 1973 by Mr. Rajendra Kumar Dabriwala of Kolkata is engaged in the manufacturing of PVC covered fire retardant, antistatic conveyor belting which are mainly used in underground mining. ICL's has two manufacturing facilities of conveyor belt - located in Aurangabad, Maharashtra (with capacity of 700,800 MPA) and Falta, W.B. (with capacity of 425,000 MPA). The company is also engaged in wind power generation with a total of five wind turbine generators (having capacity of 4.65 MW) and trading of steel cord conveyor belts and fasteners.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	49.69	79.08
PBILDT	0.63	0.47
PAT	-3.66	-5.50
Overall gearing (times)	0.41	0.68
Interest coverage (times)	0.10	0.05

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

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-Cash Credit	-	-	-	28.00	CARE BB+; Positive
Non-fund-based - LT/ ST-BG/LC	-	-	-	25.00	CARE BB+; Positive / CARE A4+
Non-fund-based - ST-Forward Contract	-	-	-	1.38	CARE A4+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	28.00	CARE BB+; Positive	-	1)CARE BB+; Stable (23-Nov-18) 2)CARE BBB-; Negative (08-Jun-18)	1)CARE BBB; Negative (03-Jan-18)	1)CARE BBB; Stable (23-Jan-17)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (27-Jan-17)

3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	25.00	CARE BB+; Positive / CARE A4+	-	1)CARE BB+; Stable / CARE A4+ (23-Nov-18) 2)CARE BBB-; Negative / CARE A3 (08-Jun-18)	1)CARE BBB; Negative / CARE A3+ (03-Jan-18)	1)CARE BBB; Stable / CARE A3+ (23-Jan-17)
4.	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (23-Jan-17)
5.	Non-fund-based - ST-Forward Contract	ST	1.38	CARE A4+	-	1)CARE A4+ (23-Nov-18) 2)CARE A3 (08-Jun-18)	1)CARE A3+ (03-Jan-18)	1)CARE A3+ (23-Jan-17)

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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