

TIL Limited (Revised)

August 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	190	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B, Outlook: Stable)
Long/Short-term Bank Facilities	160 (reduced from 200)	CARE BBB-; Stable/CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Revised from CARE BBB; Stable/CARE A3+ (Triple B , Outlook: Stable/A Three Plus)
Total	350 (Rupees Three hundred and fifty crore only)		

*Details of instruments/facilities in Annexure-1***Detailed Rationale and Key Rating Drivers**

The revision in the ratings assigned to the bank facilities of TIL Limited (TIL) takes into account the net loss incurred by the company in FY20 (refers to the period April 1 to March 31) due to decline in operating profitability and significant amount of provisions on doubtful receivables. The total operating income declined by about 21% in FY20 with subdued demand scenario and disruption in operations in Q4FY20 due to outbreak of Covid-19. The debt coverage indicators have witnessed moderation with decline in profitability and increase in finance cost on higher level of borrowings to meet the increased working capital requirement. The working capital intensity has further increased with increase in inventory level and higher receivables in spite of provisions made during the year. The operating cycle elongated to 312 days in FY20 as compared to 212 days in FY19.

The ability of the company to achieve growth in sales to improve operating profitability given the ongoing pandemic and timely realisation of pending dues remains to be seen.

The ratings, however, continue to draw strength from the experience of the promoters along with long and established track record of the company, manufacturing and technical collaboration with leading international players, moderate order book position, reputed clientele and consistent source of revenue from maintenance and repair contracts. The ratings also factor in the support extended by the promoters as required. The promoters infused unsecured loans in Q4FY20 and Q2FY21 to support operations.

Rating Sensitivities*Positive factors – Factors that could lead to positive rating action/upgrade*

- Increase in operating profitability with PBILDT margin at about 13% on a sustained basis and interest coverage above 2x.
- Improvement in operating cycle to below 200 days on a sustained basis and release of working capital.

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

- Substantial decline in operating profitability.
- Deterioration in capital structure with overall gearing exceeding 1.5x.
- Further elongation in operating cycle.
- Any significant debt funded new capex undertaken by the company or increase in existing project cost.

Detailed description of the key rating drivers**Key Rating Strengths*****Long and established track record with experienced promoters***

TIL is an established player in providing technology intensive equipment for the infrastructure sector. The company, over the last seven decades, has consistently introduced new products in the material handling and construction equipment.

The current promoter Mr. Sumit Mazumder, possesses rich experience in the industry and is supported by a team of qualified personnel.

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

Manufacturing and technical collaborations with leading international players

TIL, over the years, has entered into long term manufacturing and technical alliances with leading equipment manufacturers across the globe to offer superior products to its customers. These alliances have given technological parity to the company as most of the other domestic construction and material handling equipment manufacturers have also tied-up with renowned international technology providers.

Moderate order book position albeit good clientele and wide service network

The order book of the company remained moderate at about Rs.113 crore as on June 30, 2020 as against Rs.137 crore in December 2019. The company has also has orders in pipeline from defence sector. The client portfolio of the company comprises reputed public sector and private sector entities.

With a network of four regional offices, 60 branches & 20 product support centres in India, the company offers the required service back-up to support its product line.

Consistent source of revenue from maintenance & repair contracts and sale of component & spare parts

TIL, while selling its products, also enters into long term maintenance and repair contracts with various customers thereby providing stable and consistent source of future income. It derived income of around 32% of gross sales from sale of components & spare parts in FY20.

Key Rating Weaknesses***Decline in profitability in FY20***

TIL's operating income witnessed a decline of about 21% on a standalone basis in FY20 as compared to FY19. Sales have been impacted due to subdued demand scenario both in the domestic and export market amplified by intense competition from imports. Also there was a disruption in the supply chain in Q4FY20 due to lockdowns being imposed all over the world for containing the spread of COVID-19.

The company incurred net loss of Rs.27.97 crore in FY20 with lower operating profitability on account of under-absorption of overheads and significant provisioning on receivables. Finance cost also increased due to higher borrowings to support increase in working capital intensity further impacting profitability.

Moderation in debt coverage indicators

Interest coverage declined from 2.37x in FY19 to 0.09x in FY20 on a standalone basis. However, adjusting for the non-cash provision on receivables, PBILDT interest coverage was 1.39x. Total debt/GCA also deteriorated from FY19 as GCA turned negative in FY20. Overall gearing also witnessed deterioration at 1.08x as on March 31, 2020 from 0.78x as on March 31, 2019. However, the company has prepaid a term loan of Rs.8.69 crore in Q1FY21 from sale of a property. Further, the promoters have also infused Rs.30.50 crore (Rs.10.50 crore in Q4FY20 and Rs.20 crore in Q2FY21) as unsecured loan to support operations.

Increased working capital intensity of operations

TIL requires high level of working capital to support and maintain its large inventory of raw materials, finished goods as well as stores & spare parts. The inventory period increased further to 232 days in FY20 from 178 days in FY19.

The collection period also increased further from 118 days in FY19 to 190 days in FY20 in spite of significant amount of provisions on doubtful receivables. The fund based working capital limits remained almost fully utilised in the 12 months ended March 2020 with increase in working capital requirement.

Exposure to foreign exchange risk

The major raw materials/inputs required by TIL are high quality steel, engines, chassis for auto mobiles, valves, axle, hoist units, hydraulic Ram and cylinder etc. A large part of the material requirement is met through imports (about 50% of the total raw material is imported). This exposes the company to risk of foreign exchange fluctuation. As on March 31, 2020, it had an unhedged forex payable of Rs.25.78 crore and an unhedged forex receivable of Rs.10.18 crore.

Risk associated with the on-going project

TIL is setting up a manufacturing facility at its existing Kharagpur plant, where it has surplus land. The project cost was expected to be around Rs.50 crore and proposed to be financed out of term loan of Rs.35 crore and balance through internal generations. The project was expected to be completed by March 2020. TIL had already spent around Rs.28 crore on the project through own funds and term loan of Rs.10 crore. However, considering the present demand scenario, the company is going slow on the project. The term loan has already been prepaid by sale of a property.

Completion of the project within the envisaged cost and deriving benefits therefrom remain critical. Further, the company is in the process of shifting its manufacturing facilities in Kamarhatty to existing plant in Kharagpur at an estimated cost of about Rs.15 crore. It has already incurred about Rs.7 crore on the same.

Liquidity: Adequate

The company has low term debt repayment obligations in the short term for which cash accruals are likely to be sufficient. It prepaid a term loan of about Rs.9 crore in Q1FY21 from sales proceeds of a property. The utilisation of working capital limits has been high at around 98% in the 12 month period ended March 31, 2020 and the company has sought for enhancement in the working capital limits. Meanwhile, the promoters have also infused Rs.30.50 crore as unsecured loan and the company is also looking at sale of other non-core properties to reduce term debt. The company is expected to get support from the promoters as and when required.

The company has availed moratorium on debt servicing from most of its lenders in terms of the Covid-19 Regulatory Package announced by RBI.

Analytical approach: Standalone.

The company has one wholly owned overseas subsidiary Company - TIL Overseas Pte Ltd (TILO), Singapore. CARE had earlier taken a consolidated view on TIL. However, considering that there is limited cash flow fungibility with the foreign subsidiary, a standalone view has now being taken while factoring in the support to be extended to the subsidiary. Further, there are no major operations in TILO.

Applicable Criteria

Criteria on assigning Outlook and credit watch to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Rating Methodology-Manufacturing Companies

Financial ratios – Non-Financial Sector

Liquidity Analysis of Non-financial sector entities

Consolidation and Factoring Linkages in Ratings

About the company

TIL, incorporated in 1944, has been in operation for more than seven decades and is engaged in manufacturing and marketing of equipment for material handling, lifting, port & road building solutions. It provides integrated customer support and after-sale services through a well-connected network of offices and product support centres in India along with a subsidiary in Singapore. The manufacturing facilities are located at Kamarhatty (near Kolkata) and Kharagpur in West Bengal. The company operates under two strategic business units (SBUs): Material Handling Solutions (MHS) for manufacturing of material handling equipment (MHE) and Equipment & Project Solutions (EPS) for manufacturing crushing & screening equipment and handling equipment for ports & road building solutions.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	477.37	376.96
PBILDT	62.91	3.12
PAT	26.74	-27.97
Overall gearing (times)	0.78	1.08
Interest coverage (times)	2.37	0.09

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	-	-	-	190.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	160.00	CARE BBB-; Stable / CARE A3

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	190.00	CARE BBB-; Stable	-	1)CARE BBB; Stable (24-Feb-20) 2)CARE BBB+; Stable (04-Jul-19)	1)CARE BBB+; Stable (06-Jul-18)	1)CARE BBB+; Stable (17-Aug-17)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	160.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3+ (24-Feb-20) 2)CARE BBB+; Stable / CARE A2 (04-Jul-19)	1)CARE BBB+; Stable / CARE A2 (06-Jul-18)	1)CARE BBB+; Stable / CARE A2 (17-Aug-17)
3.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (06-Jul-18)	1)CARE BBB+; Stable (17-Aug-17)

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 the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-BG/LC	Simple

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:

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