INDAG®

ISO 9001 : 2008

Indag Rubber Limited

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January 18, 2019

The Bombay Stock Exchange
Phiroze Jeejeebhoy Towers,
Dalal Towers
Mumbai-400001

(Company code 1321)
(Scrip code-509162)

Sub: Credit rating assigned by ICRA for Rs. 55 crores

Dear Sir,

In pursuance of Regulation 30 read with Schedule III Part A, Para A(3) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 enclosed herewith please find the copy of Credit Rating issued by the ICRA.

This is for your information and record.

Thanking you,

Yours faithfully,
For **Indag Rubber Limited**

Manali D. Bijlani
Company Secretary

Indag Rubber Limited

November 29, 2018

Indag Rubber Limited: Ratings downgraded to [ICRA]A(Stable)/A1

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based /Cash Credit	8.0	8.0	[ICRA]A; revised from [ICRA]A+; outlook revised from 'negative' to 'stable'
Non-Fund based /Bank Guarantee	45.0	45.0	[ICRA]A1; revised from [ICRA]A1+
Unallocated	2.0	2.0	[ICRA]A1; revised from [ICRA]A1+
Total	**55.0**	**55.0**	

*Instrument details are provided in Annexure-1

Rationale

The rating revision factors in decline in scale of operations in FY 2018 mainly led by lower State Transport Units (STU) business coupled with Goods and service tax (GST) implementation. Moreover, the company's profitability shrunk on account of expiry of excise duty benefits along with spike in raw material prices in FY2018 and first half of FY2019. ICRA also notes marginal increase in receivables and continuation of IRL's risen stock levels in FY2018 resulting in slight elongation in working capital cycle.

However, rating continues to draw comfort from IRL's strong pan-India distribution network with an established presence in the active retreading belts as well as its long track record in the retreading segment. The rating also favourably factors in IRL's strong financial risk profile characterized by strong liquidity and healthy cash reserves with liquid investments of over Rs 90 crore. Further, the rating is supported by limited external debt and unutilized cash credit limit of Rs 8 crore providing sufficient cushion to the liquidity of the company. Going forward, IRL's ability to improve the pace of volumetric growth and ensure adequate ramp up and utilisation of its recently-enhanced capacity will be important for it to protect its market position and profitability metrics, will remain the key sensitivity.

Outlook: Stable

ICRA believes that IRL will build upon its scale post revival in the STU business in the current financial year. The outlook may be revised to 'Positive' if the company is able to efficiently ramp up its capacity utilization and improve its volumetric revenues and increase its profitability. The outlook may be revised to 'Negative' if the decline in scale continues and raw material prices continues to increase thereby shrinking the profitability further.

Key rating drivers

Credit strengths

Established presence and long track record in retreading industry coupled with IRL's pan-India distribution network– IRL is an established player in India's tyre retreading business with a strong presence through a wide distribution network. Till 2016, the company had been gaining from the available excise duty benefits at its Nalagarh unit, which expired by the end of FY2016. The company has strong group backing through its promoters.

Strong financial profile characterized by robust capitalization and coverage metrics with minimal funding requirements– With no external long-term debt and minimum utilization of any fund-based working capital limits, the interest burden is very low resulting in healthy debt-coverage indicators. The consistent profit accretion and strong net worth of the company to the tune of Rs 186 crore has reflected into strong capital structure of IRL. Funding of majority of capex through internal surpluses has helped the financial health of the company given no reliance on any long-term debt.

Strong liquidity backed by healthy cash reserves and heavy liquid investments – The overall liquid investments of the company to the tune of Rs 100 crore coupled with almost zero utilization of the sanctioned Rs 8 crore cash credit limits has provided healthy cushion to the liquidity of the company.

Credit challenges

Reduced scale of operations owing to overall volumetric decline post GST implementation in FY2018 and lowered STU business resulting in falling operating revenues– Post GST implementation, where de-stocking of the inventory by the dealers led to overall decline in the volumes, the operating revenues for the company decreased from Rs 183.6 crore in FY2017 to Rs 164 crore in FY2018. Prior to that, the operating income declined from Rs 252.8 crore in FY2016 to Rs 183.6 crore by 27% approx. owing to intense competition from bigger players and eventually losing STU clients to them.

Declining profitability owing to expiry of excise duty benefits and vulnerability to consistently fluctuating raw material prices - With decline in volume sales in FY2018 post increment in capacity of the plant, fixed overheads resulted in lower than expected operating margins. Further, the increasing trend of raw material prices in FY2018 and first half of current financial year particularly led by crude derivatives such as synthetic rubber and carbon, resulted in shrunk margins to 10.9% in FY2018 from 15.8% in FY2017. Even the natural rubber prices rose by 10% in the first half of current financial year. However, off late, the prices of natural rubber and crude has stabilized but the volatility continues.

Stiff competition partly moderated by imposition of anti-dumping duty on Chinese tyres - The competition in the industry continues to be intense with healthy competition imposed by local players and bigger players such as J.K.Tyres. The threat was also from the Chinese tyre manufacturers, but it has been mitigated post anti-dumping duty imposed by Govt. of India.

Marginally increased working capital cycle on account of increased receivable cycle and continuation of stock levels – The working capital intensity of IRL has worsened from 16.1% in FY2016 to 28.1% in FY2017, which further increased to 30.4% in FY2018. The major contributor to incremental working capital intensity has been increased stock levels since FY2017 thereby exposing IRL to further price fluctuation risks. The debtor days in FY2018 also stretched slightly from 52 days in FY2017 to 63 days in FY2018.

Liquidity position

The liquidity position of the company remains healthy with unused cash credit limits of upto Rs 8 crore along with heavy liquid investments to the tune of Rs 100 crores. This apart, company has healthy cash reserves of approx. Rs 8-10 crores.

Analytical approach

Analytical Approach	**Comments**
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation /Standalone	The ratings are based on the standalone financial profile of the company

About the company

Indag Rubber Limited (IRL) was incorporated in July 1978 as a joint venture between Khemka group and M/s Bandag Incorporated, USA, one of the biggest players in the US retreading industry. The above joint venture was terminated on March 1, 2006 with Bandag's shareholding being taken over by the Khemka Group. Bandag Inc.'s 2,013,000 equity shares were registered in the name of Indian promoters on May 30, 2006. The company is engaged in providing re-treading material ranging from pre-cured retreaded rubber strip to other retreading accessories like envelopes. IRL uses the cold cure technique to manufacture the retreading material. The company's processes are ISO 9001-2008 certified and the products are tested at multiple stages to ensure superior quality. The manufacturing facility of IRL is located in Nalagarh, Himachal Pradesh.

In FY2017, the firm reported a net profit of Rs. 21.9 crore on an operating income (OI) of Rs. 183.6 crore compared to a net profit of Rs. 15.8 crore on an OI of Rs. 164.0 crore in the previous year.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	183.6	164.0
PAT (Rs. crore)	21.9	15.8
OPBDIT/ OI (%)	15.8%	10.9%
RoCE (%)	19.2%	11.8%
Total Debt/ TNW (times)	-	-
Total Debt/ OPBDITA (times)	-	-
Interest Coverage (times)	94.1	87.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Type December 2018	Amount Rated (Rs. crore) February 2018	Date & Rating in FY2018 October 2017	Type October 2016
1	Cash Credit	Long Term	8.0	8.0	[ICRA]A(Stable); Revised	[ICRA]A+(Negative); reaffirmed	[ICRA]A+(Stable); reaffirmed	[ICRA]A+ (Stable); reaffirmed
2	Bank Guarantee	Short Term	45.0	45.0	[ICRA]A1; Revised	[ICRA]A1+; Reaffirmed	[ICRA]A1+; Reaffirmed	[ICRA]A1+; Assigned
3	Unallocated	Short Term	2.0	2.0	[ICRA]A1; Revised	[ICRA]A1+; Reaffirmed	[ICRA]A1+; Reaffirmed	[ICRA]A1+; Assigned

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	8.0	[ICRA]A(Stable); Revised
NA	Bank Guarantee	NA	NA	NA	45.0	[ICRA]A1; Revised
NA	Unallocated	NA	NA	NA	2.0	[ICRA]A1; Revised

Source: IRL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not applicable	Not applicable	Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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