

## Press Release

Indian Commerce & Industries Co. Private Limited

December 27, 2018

### Rating Reaffirmed, Assigned and Withdrawn



|                                     |  |
|-------------------------------------|--|
| <b>Total Bank Facilities Rated*</b> | Rs. 46.90 Cr.<br>(Enhanced from Rs. 39.90 crore)   |
| <b>Long Term Rating</b>             | ACUITE BBB / Outlook: Negative<br>(Rating Reaffirmed, Outlook revised from Stable to Negative) |
| <b>Short Term Rating</b>            | ACUITE A3+   |

\* Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BBB**' (read as **ACUITE BBB**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs. 31.90 crore bank facilities and assigned the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) to the Rs. 15.00 crore bank facility.

Further, Acuite has withdrawn the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) to the Rs. 9.60 crore bank facilities of Indian Commerce & Industries Co. Private Limited (ICICPL). The outlook has changed from '**Stable**' to '**Negative**'.

The revision in the outlook reflects steady decline in cash accruals and revenues year-over-year. The cash accruals and revenues declined to Rs.2.24 crore and Rs.134.88 crore in FY2018 from Rs.7.09 crore and Rs.147.01 crore in FY2016. Sharp decline in accruals are owing to increasing fixed overheads and declining revenues as reflected by the dip in operating margins (OPM). OPM deteriorated to 6.23 percent in FY2018 against 9.29 percent in FY2016.

The rating continues to reflect extensive industry experience of the promoters, long track record of operations, and comfortable financial risk profile. However, these strengths are partially offset by working capital intensive operations and fluctuating raw material prices.

ICICPL, the flagship company of Beehive Kowtha Group was founded in 1907. Since then, the Group has grown into one of the largest structural steel construction companies in South India with full-fledged fabrication shops at Madras, Vijayawada and Hyderabad. The company is engaged in the business of structural steel building construction (fabrication, erection) and Labour Contractors for various industrial units. Further, ICICPL is also engaged in manufacturing of steel roof sheets, castings, steel structures and trading in steel building materials and steel castings. The company has its manufacturing units for Pre Engineered Buildings (PEB) and metal sheet profiling in Tamil Nadu and foundry and steel fabrication in Andhra Pradesh. Overall, the company has an installed capacity of 720 Tonnes per annum (TPA) for steel castings, around 19,750 TPA for structural steel and 4500 TPA for roofing sheets.

### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the ICICPL to arrive at this rating.

### Key Rating Drivers

#### Strengths

#### • Long track record of operations and experienced management

ICICPL was established in 1907 by Shri. Kowtha Suryanarayan Row in Vijayawada, Andhra Pradesh. ICICPL is managed by second and third generation entrepreneurs who are well qualified and experienced in Management of Engineering Enterprises. Currently, the company is managed by three Directors, Mr. K. L. Manohar, Mr. C. Ramesh Kumar and Mr. C. Ravindran who have more than three decades of experience in manufacturing, fabrication and installation of steel structures. Aided by the experienced management and quality deliverables, ICICPL ensures steady order flow from the

long vintage and reputed clientele including MRF Limited, Brakes India Limited, TVS Motor Company Limited, Ashok Leyland Limited, among others. ICICPL has an unexecuted order book position of about Rs.192.00 crore as on November 2018 for execution over 12-18 months which provides adequate revenue visibility over the medium term. Further, the company has long and established relationship with reputed steel suppliers such as JSW Steels, SAIL, Tata Steel Limited, RINL, among others which ensure regular supply of materials. Acuite believes that with diversified clientele, experienced management and operational track record, ICICPL will continue to benefit over the medium term.

- **Healthy financial risk profile**

Financial risk profile of the company is healthy marked by strong gearing (debt to equity), total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. Gearing stood strong at 0.06 times as on 31 March, 2018 as against 0.11 times as on 31 March, 2017. TOL/TNW stood healthy at 0.26 times as on 31 March, 2018 as against 0.38 times as on 31 March, 2017. Strong capital structure is backed by negligible debt and moderate net worth at about a billion. However, with the declining profitability and revenues, the debt protection metrics of interest coverage ratio (ICR) has deteriorated to 1.44 times in FY2018 against 2.55 times in FY2016. Acuite believes that with strong capital structure, low reliance on debt, the financial risk profile continues to be at similar levels though partly constrained by moderate interest coverage.

## **Weaknesses**

- **Modest working capital intensity with low inventory holding**

ICICPL's operations are working capital intensive as reflected in the Gross Current Assets (GCA) of around 268 days in FY2018. The high GCA days emanates from the company's moderate receivable cycle and high inventory holding. The receivables are at 88 days, whereas inventory levels are high at about 136 days in FY2018; and historically high at over 100 days. The inventory purchase is not backed by orders leading to partly fluctuating margins. However, despite intensive working capital, the increasing reliance on working capital limits are due to moderate net worth of about a billion; its working capital limits are utilised at about 55 percent over six months through October 2018. Acuite believes that ICICPL's operations continue to be at similar levels owing to the industry business model.

- **Volatile operating margins and stagnant revenues**

The company registered revenue of Rs.134.88 crore in FY2018 as against Rs.134.55 crore in FY2017. Top-line witnessed marginal dip over the last three fiscals. Further, the dip in the revenues, fluctuating raw materials and increasing fixed and other overheads lead to declining profitability. The operating margins (EBIDTA) declined to 8.58 percent in FY2018 from 6.23 percent in FY2017. Acuite believes that improvement of revenues on the back of unexecuted order book of about Rs.192.0 crore, and profitability are the key rating sensitivity factors in improving its business and financial risk profile over the medium term.

- **Competitive and fragmented industry**

ICICPL is into business of structural steel building construction, wherein the sector is marked by the presence of several mid to large sized players including Kirby Buildings Systems India Pvt Ltd, Tata Bluescope Steel Ltd, among others, and susceptibility to inherent cyclicity in the steel and construction sector. This intensifies the competitive scenario in the industry leading to pressure on the profitability margins.

## **Outlook: Negative**

Acuite believes that the business risk profile of ICICPL will continue to be constrained over the near term due to stagnant revenues and low profitability. The ratings may be downgraded in case of further decline in revenues or cash accruals. Conversely, the outlook may be revised to 'Stable' in the event of the company reporting significantly better than expected cash accruals while improving the revenues.

### About the Rated Entity - Key Financials

|                               | Unit    | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income              | Rs. Cr. | 134.88        | 134.55        | 147.01        |
| EBITDA                        | Rs. Cr. | 8.40          | 11.55         | 13.66         |
| PAT                           | Rs. Cr. | 0.90          | 2.91          | 5.60          |
| EBITDA Margin                 | (%)     | 6.23          | 8.58          | 9.29          |
| PAT Margin                    | (%)     | 0.67          | 2.16          | 3.81          |
| ROCE                          | (%)     | 7.10          | 10.73         | 30.83         |
| Total Debt/Tangible Net Worth | Times   | 0.06          | 0.11          | 0.07          |
| PBDIT/Interest                | Times   | 1.44          | 2.14          | 2.55          |
| Total Debt/PBDIT              | Times   | 0.72          | 0.86          | 0.39          |
| Gross Current Assets (Days)   | Days    | 268           | 270           | 204           |

### Status of non-cooperation with previous CRA (if applicable)

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

### Rating History (Upto last three years)

| Date        | Name of Instrument / Facilities | Term       | Amount (Rs. Cr.) | Ratings/Outlook                |
|-------------|---------------------------------|------------|------------------|--------------------------------|
| 06-Dec-2017 | Cash Credit                     | Long Term  | 4.50             | ACUITE BBB/Stable (Reaffirmed) |
|             | Term Loan I                     | Long Term  | 5.39             | ACUITE BBB/Stable (Reaffirmed) |
|             | Term Loan II                    | Long Term  | 4.21             | ACUITE BBB/Stable (Reaffirmed) |
|             | Proposed Long Term Loan         | Long Term  | 0.80             | ACUITE BBB/Stable (Reaffirmed) |
|             | Letter of Credit                | Short Term | 10.00            | ACUITE A3+ (Reaffirmed)        |
|             | Bank Guarantee                  | Short Term | 15.00            | ACUITE A3+ (Reaffirmed)        |
| 02-Aug-2017 | Cash Credit                     | Long Term  | 4.50             | ACUITE BBB (Indicative)        |
|             | Term Loan I                     | Long Term  | 5.39             | ACUITE BBB (Indicative)        |
|             | Term Loan II                    | Long Term  | 4.21             | ACUITE BBB (Indicative)        |
|             | Proposed Long Term Loan         | Long Term  | 0.80             | ACUITE BBB (Indicative)        |
|             | Letter of Credit                | Short Term | 10.00            | ACUITE A3+ (Indicative)        |

|             |                        |            |       |                                |
|-------------|------------------------|------------|-------|--------------------------------|
|             | Bank Guarantee         | Short Term | 15.00 | ACUITE A3+ (Indicative)        |
| 28-Apr-2016 | Cash Credit            | Long Term  | 4.50  | ACUITE BBB / Stable (Assigned) |
|             | Term Loan I            | Long Term  | 5.39  | ACUITE BBB / Stable (Assigned) |
|             | Term Loan II           | Long Term  | 4.21  | ACUITE BBB / Stable (Assigned) |
|             | Letter of Credit       | Short Term | 10.00 | ACUITE A3+ (Assigned)          |
|             | Bank Guarantee         | Short Term | 15.00 | ACUITE A3+ (Assigned)          |
|             | Proposed Bank Facility | Long Term  | 0.80  | ACUITE BBB / Stable (Assigned) |

#### \*Annexure – Details of instruments rated

| Name of the Facilities              | Date of Issuance | Coupon Rate    | Maturity Date  | Size of the Issue (Rs. Cr.) | Ratings/Outlook  |
|-------------------------------------|------------------|----------------|----------------|-----------------------------|--|
| Cash Credit                         | Not Applicable   | Not Applicable | Not Applicable | 4.50                        | ACUITE BBB / (Reaffirmed, Outlook revised to Negative) |
| Letter of credit                    | Not Applicable   | Not Applicable | Not Applicable | 10.00                       | ACUITE A3+ (Reaffirmed)                                |
| Bank guarantee/ Letter of Guarantee | Not Applicable   | Not Applicable | Not Applicable | 15.00                       | ACUITE A3+ (Reaffirmed)                                |
| Working capital demand loan (WC DL) | Not Applicable   | Not Applicable | Not Applicable | 15.00                       | ACUITE BBB / Negative (Assigned)                       |
| Proposed Long Term Loan             | Not Applicable   | Not Applicable | Not Applicable | 2.40                        | ACUITE BBB / (Reaffirmed, Outlook revised to Negative) |
| Term Loan I                         | Not Applicable   | Not Applicable | Not Applicable | 5.39                        | ACUITE BBB/ Stable (Withdrawn)                         |
| Term Loan II                        | Not Applicable   | Not Applicable | Not Applicable | 4.21                        | ACUITE BBB/ Stable (Withdrawn)                         |

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#### About Acuité Ratings & Research:

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