

## 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### Rating Reaffirmed, Assigned and Withdrawn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. (Enhanced from Rs. 39.90 crore)
<b>Long Term Rating</b>	ACUITE BBB / Outlook: Negative (Rating Reaffirmed, Outlook revised from Stable to Negative)
<b>Short Term Rating</b>	ACUITE A3+

\* Refer Annexure for details

### Rating Rationale

Acuité 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Further, Acuité has withdrawn the long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) to the Rs. 9.60 crore bank facilities of Indian Commerce & Industries Co. Private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

Acuité 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 Suryanarayana 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. Acuité 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. Acuité 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. Acuité 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. Acuité 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 cyclical in the steel and construction sector. This intensifies the competitive scenario in the industry leading to pressure on the profitability margins.

## Outlook: Negative

Acuité 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 (WCDL)	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)

**Contacts**

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>	Varsha Bist Manager - Rating Desk Tel: 022-67141160 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>
Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-40055452 <a href="mailto:bhavanisankar.oruganti@acuiteratings.in">bhavanisankar.oruganti@acuiteratings.in</a>	

**About Acuité Ratings & Research:**

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