

Press Release

Indian Commerce & Industries Co. Private Limited

March 13, 2020



Rating Reaffirmed; Outlook Revised

Total Bank Facilities Rated*	Rs.46.90 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Reaffirmed) (Outlook revised to 'Stable' from 'Negative')
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.46.90 crore bank facilities of Indian Commerce & Industries Company Private Limited (ICICPL). The outlook has been revised from '**Negative**' to '**Stable**'.

The outlook revision reflects improvement in ICICPL's business risk profile, which is expected to sustain over the medium term. Revenue rose to Rs.217.97 crore in FY2019 from Rs.134.88 crore FY2018 and unexecuted orders over Rs.160 crore as on December 31, 2019 provides revenue visibility over the near term. The ratings continue to reflect the company's established market position backed by strong track record in the industry and experience of the promoters and management, strong business linkages with customers like MRF Limited, Apollo Tyres Limited, and Ashok Leyland Limited resulting in repeat orders from them. These strengths are partially offset by exposure to intense competition, and susceptibility to volatility in raw material prices, and sustenance of the improvement over the medium term will be key monitorable.

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, 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 Mr. 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 two Directors, 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, Apollo Tyres Ltd, TVS Motor Company Limited, Ashok Leyland Limited, among others. ICICPL has an unexecuted order book position of about Rs.160.00 crore as on December 2019 for execution over 12-18 months which provides adequate revenue visibility over the medium term.

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**

ICICPL's financial risk profile is healthy, marked by a healthy net worth, low gearing and above average debt protection metrics. Its net worth is healthy at around Rs.110.13 crore as on March 31, 2019 (Includes Quasi Equity Rs.50.71 crore). The net worth levels have seen significant improvement over the last three years through FY 2019 on account of quasi equity infusion of Rs.15.83 crore by the promoters and accretion to reserves during the same period. The company has followed a conservative financial policy in the past; the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.19 and 0.59 times as on March 31, 2019. The leverage levels continue to remain healthy over the medium term against negligible debt and no major debt-funded capital expenditure (capex) plans over the medium term. The moderate profitability levels coupled with low debt levels has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 were moderate at 2.12 times and 0.14 times, respectively Vis-à-vis 1.44 times and 0.26 times for FY2018. The cash accruals are expected in the range of Rs.2.50-4.00 crore, against no major debt obligations over the next two years.

Acuite believes that with strong capital structure, low reliance on debt, the financial risk profile continues to be at similar levels.

Weaknesses

• **Volatile operating income and declined operating margins**

The company registered revenue of Rs.217.97 crore in FY2019 as against Rs.134.88 crore in FY2018. However, the company has reported revenue of about Rs.136 crore (Provisional) till November 2019 and revenues are expected to be in the range of Rs.160 crore to Rs.170 crore for FY2020. Further it has an unexecuted order book position of about Rs.160.00 crore as on December 2019 for execution over 12-18 months which provides adequate revenue visibility over the medium term. Fluctuating raw materials and increasing fixed and other overheads lead to declining profitability. The operating margins (EBIDTA) declined to 8.58 percent in FY2017 from 4.62 percent in FY2019.

Acuite believes that improvement of revenues on the back of unexecuted order book of about Rs.160 crore, and profitability are the key rating sensitivity factors in improving its business and financial risk profile over the medium term.

• **Working capital intensive nature of operations**

ICICPL's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of around 243 days for FY2019 which emanates from high inventory of 118 days as on for FY2019 as against 136 days for FY2018. The GCA remains high on account of large inventory holding necessary to meet the orders. Also, other current assets consist of advance given to suppliers and taxes receivables have also resulted into increased GCA days. The company gives credit period of 60-90 days to its customers. Moderate working capital management and moderate accruals lead to moderate utilisation of its working capital limits at about 65 percent over the past six months ended October 2019. Acuite believes that ICICPL's operations continue to be at similar levels owing to the industry business model.

Rating Sensitivity

- Increase in scale of operations, while improving its profitability margins.
- Further reduction of operating profitability below 4 percent
- Large working capital requirement or significant debt-funded capex weakening the financial risk profile.

Material covenants

None

Liquidity Position: Adequate

ICICPL has adequate liquidity marked by adequate net cash accruals and moderate working capital management. ICICPL has reported cash accruals of Rs.2.96 crore in FY 2019 and accruals expected in the range of Rs.2.50- 3.00 crores over the medium term and there are no repayment obligations and no significant capex plans over the medium term. The Its's operations are working capital intensive as marked by high gross current asset (GCA) days of 243 in FY 2019 as against 268 days in FY 2018. It's the working capital limits utilized at 65 percent during the last six months period ended October 2019.

ICICPL maintains unencumbered cash and bank balances of Rs.10.69 crore as on March 31, 2019. The current ratio of the company stands healthy at 2.39 times as on March 31, 2019. Acuite believes that the liquidity of the ICICPL is likely to remain adequate over the medium term on account of moderate cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuite believes that ICICPL will maintain a 'Stable' outlook over the medium term backed by its experienced management and moderate revenue visibility. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its revenues while maintaining its profitability margins and improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or larger-than-expected debt-funded capital expenditure resulting in deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials – Consolidated

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	217.97	134.88
PAT	Rs. Cr.	1.69	0.90
PAT Margin	(%)	0.78	0.67
Total Debt/Tangible Net Worth	Times	0.19	0.06
PBDIT/Interest	Times	2.12	1.44

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Infrastructure Sector Entities - <https://www.acuite.in/view-rating-criteria-51.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
27-Dec-2018	Cash Credit	Long Term	4.50	ACUITE BBB / Negative (Reaffirmed, Outlook revised to Negative)
	Letter of credit	Short Term	10.00	ACUITE A3+ Reaffirmed
	Bank guarantee/Letter of Guarantee	Short Term	15.00	ACUITE A3+ Reaffirmed
	Working capital demand loan (WC DL)	Long Term	15.00	ACUITE BBB / Negative (Assigned)
	Proposed Long Term Loan	Long Term	2.40	ACUITE BBB / Negative (Reaffirmed, Outlook revised to Negative)
	Term Loan I	Long Term	5.39	ACUITE BBB (Withdrawn)
	Term Loan II	Long Term	4.21	ACUITE BBB (Withdrawn)

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)

***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 /Stable (Reaffirmed, Outlook revised to 'Stable' from 'Negative')
Letter of credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ (Reaffirmed)
Bank 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 (Withdrawn)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	17.40	ACUITE BBB /Stable (Reaffirmed, Outlook revised to 'Stable' from 'Negative')

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About Acuite Ratings & Research:

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