

Rating Advisory

November 17, 2021 | Mumbai

ITL Industries Limited

Advisory as on November 17, 2021

This rating advisory is provided in relation to the rating of ITL Industries Limited

The key rating sensitivity factors for the rating include:

Upward factor

- * Sustained improvement in scale of operation by 25% and sustenance of operating margin
- * Significant decline in GCA days

Downward factors

- * Lower-than-expected top line and profitability, leading to net cash accrual lower than Rs 3 crore
- * Higher-than-expected, debt-funded capital expenditure affecting the financial profile

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL Ratings is yet to receive adequate information from ITL Industries Limited (ITLIL) to enable it to undertake a rating review. CRISIL Ratings is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf)

If ITLIL continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

About the Company

ITLIL, incorporated in 1989 at Indore, Madhya Pradesh. ITLIL is engaged in manufacturing of band saw and circular saw machinery (used in metal cutting), blade for band saw and circular saw, and pipe and tube manufacturing. ITL is also an authorized distributor for Eaton hydraulic systems (now Danfoss) in Madhya Pradesh and Chhattisgarh.

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Please note: This advisory should not be construed as a rating reaffirmation.

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Rating Rationale

August 28, 2020 | Mumbai

ITL Industries Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.24.35 Crore
Long Term Rating	CRISIL BBB/Stable (Reaffirmed)
Short Term Rating	CRISIL A3+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL BBB/Stable/CRISIL A3+' ratings on the bank facilities of ITL Industries Limited (ITLIL).

The ratings continues to reflect extensive industry experience of the promoters, stable market position and comfortable financial risk profile. These strengths are partially offset by susceptibility of the operating margin to volatility in commodity prices and intensive nature of working capital operations.

Key Rating Drivers & Detailed Description

Strengths:

* Extensive industry experience of the promoters:

The company is promoted by Mr. Manohar Singh Jain, who has an industry experience of over 5 decades. He is assisted by his two sons, Mr. Rajendra Singh Jain and Mr. Mahendra Singh Jain (Joint MD'S), who look after the day to day business of the company. The promoters, along with the board of directors and the senior management have rich experience in the engineering industry, and has been instrumental in shaping the business risk profile. Supported by the long standing experience in the industry, the company has established strong relationships with the customers and suppliers.

* Stable Market Position:

The company has a long standing presence of close to 30 years in the industry. Over the years, the company has established strong relations with customers across various industries such as general engineering, auto components, forging, power, metals etc. Concentration risk is minimal as its customers are located across India, and top 5 customers contribute to less than 10% of overall revenue. The company has its own R&D center, which is engaged in development of new products and improvement of existing ones. Supported by the quality of products, the company has been receiving repeat orders from its customers. The company has outstanding orders of over Rs 29 crore to be executed over the next 3 - 4 months which provides near term revenue visibility.

* Comfortable Financial Risk Profile:

Financial risk profile is supported by healthy capital structure, as reflected in gearing of 0.36 time and adequate network of Rs. 42.6 crores as on March 31, 2020. Debt protection metrics are comfortable with interest coverage ratio of 6.01 times and net cash accruals to adjusted debt ratio of 0.37 for fiscal 2020.

Weakness:

* Susceptibility of the operating margin to volatility in commodity prices:

Operating margins are exposed to volatility in raw material prices. Raw material costs accounts for 70% of the operating revenue. Any sharp deviation in raw material prices is likely to impact the operating margins of the company.

* Intensive nature of working capital operations:

Gross current assets (GCA) was at 294 days as on March 31, 2020. The GCA is mainly driven by high inventory and receivables. The company is required to maintain higher inventory in order to ensure smooth execution of orders during the subsequent 3-4 months. However inventory had increased to around 213 days as on March 31, 2020 on account of

dispatches of finished goods held back due to the covid 19 pandemic. Going forward with normalcy in operations the inventory levels are expected to decline to previous levels.

Liquidity Adequate

Liquidity is adequate driven by expected cash accruals of more than Rs. 3.6 crores per annum in fiscal 2021 and Rs 6 crore in fiscal 2022 against repayment obligations of Rs 0.87 crore in fiscal 2021 and Rs 2 crore in fiscal 2022. ITLIL also has access to fund based limits of Rs.14 crores, utilized to the tune of 85% on an average over the 12 months ended May 2020. The liquidity is also supported coming from emergency credit lines of Rs 4 crore under the covid 19 assistance schemes.

Outlook: Stable

CRISIL believe ITLIL will continue to benefit from the extensive experience of its promoter, and established relationships with clients.

Rating Sensitivity factors

Upward factor

- * Sustained improvement in scale of operation by 25% and sustenance of operating margin
- * Significant decline in GCA days

Downward factors

- * Lower-than-expected top line and profitability, leading to net cash accrual lower than Rs 3 crore
- * Higher-than-expected, debt-funded capital expenditure affecting the financial profile

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Key Financial Indicators

Particulars	Unit	31-March-2020	31-March-2019
Revenue	Rs crore	80.80	102.18
Profit after tax (PAT)	Rs crore	4.68	6.65
PAT margin	%	5.8	6.5
Adjusted debt/Adjusted networkth	Times	0.36	0.39
Interest coverage	Times	6.01	10.17

Status of non cooperation with previous CRA:

ITLIL has not cooperated with Brickwork Ratings India Private Limited, which led to its classification as 'issuer not cooperative' vide release dated July 13, 2020. The reason provided by Brickwork Ratings India Private Limited is non-furnishing of information for monitoring of ratings.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Cr)	Complexity Levels	Rating assigned with outlook
NA	Bank Guarantee	NA	NA	NA	3.5	NA	CRISIL A3+
NA	Cash Credit	NA	NA	NA	14	NA	CRISIL BBB/Stable
NA	Letter of Credit	NA	NA	NA	2	NA	CRISIL A3+
NA	Proposed Cash Credit Limit	NA	NA	NA	0.1	NA	CRISIL BBB/Stable
NA	SME Care Loan	NA	NA	NA	0.25	NA	CRISIL BBB/Stable
NA	Standby Line of Credit	NA	NA	NA	1	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	Mar-2026	3.5	NA	CRISIL BBB/Stable

Annexure - Rating History for last 3 Years

		Current		2020 (History)		2019		2018		2017		Start of 2017
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	18.85	CRISIL BBB/Stable			09-05-19	CRISIL BBB/Stable					Suspended
Non Fund-	LT/ST	5.50	CRISIL			09-05-19	CRISIL					Suspended

based Bank Facilities		A3+			A3+				
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All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	3.5	CRISIL A3+	Bank Guarantee	3.5	CRISIL A3+
Cash Credit	14	CRISIL BBB/Stable	Cash Credit	14	CRISIL BBB/Stable
Letter of Credit	2	CRISIL A3+	Letter of Credit	2	CRISIL A3+
Proposed Cash Credit Limit	.1	CRISIL BBB/Stable	Proposed Cash Credit Limit	.1	CRISIL BBB/Stable
SME Care Loan	.25	CRISIL BBB/Stable	SME Care Loan	.25	CRISIL BBB/Stable
Standby Line of Credit	1	CRISIL BBB/Stable	Standby Line of Contract	1	CRISIL A3+
Term Loan	3.5	CRISIL BBB/Stable	Term Loan	3.5	CRISIL BBB/Stable
Total	24.35	--	Total	24.35	--

Links to related criteria
Assessing Information Adequacy Risk
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Approach to Recognising Default
CRISILs Bank Loan Ratings
CRISILs Criteria for rating short term debt
The Rating Process
Understanding CRISILs Ratings and Rating Scales

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com</p>	<p>Mohit Makhija Director - CRISIL Ratings CRISIL Limited B: +91 124 672 2000 mohit.makhija@crisil.com</p> <p>ARBEZ KARBHARI Rating Analyst - CRISIL Ratings CRISIL Limited D: +91 22 4032 8222 Arbez.Karbhari@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

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