

Rating Advisory

August 21, 2020 | Mumbai

Innovative Tyres and Tubes Limited

Advisory as on August 21, 2020

This rating advisory is provided in relation to the rating of Innovative Tyres and Tubes Limited

The key rating sensitivity factors for the rating include:

Upward factors

*Sustained increase in revenue by 20% and recovery in operating margin to the historical level

* Improvement in working capital cycle or liquidity

Downward factors

*Decline in operating profitability by 100 basis points

*Lower-than-expected accrual or a stretch in the working capital cycle

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 is yet to receive adequate information from Innovative Tyres and Tubes Limited (ITTTL) to enable it to undertake a rating review. CRISIL 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 views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If ITTL continues to delay the provisioning of information required by CRISIL 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/2017/71dt.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 will carry out the review based on best available information and issue a press release.

About the company

Innovative Tyres and Tubes Limited (ITTTL), one of the leading manufacturers and exporters of bias tyres in India, has an experience of 20 years in manufacturing field. ITTL offers a wide range of products in the Truck / Bus, Agricultural & off-the-road (OTR), and motorcycle/three-wheeler segments. In addition to domestic presence in various states, ITTL exports tyres to more than 40 countries across five continents. The manufacturing plants are in Halol (Gujarat).

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Rating Rationale

November 19, 2019 | Mumbai

Innovative Tyres and Tubes Limited

Ratings downgraded to 'CRISIL BBB-/Stable/CRISIL A3'

Rating Action

Total Bank Loan Facilities Rated	Rs.40.62 Crore
Long Term Rating	CRISIL BBB-/Stable (Downgraded from 'CRISIL BBB+/Stable')
Short Term Rating	CRISIL A3 (Downgraded from 'CRISIL A2')

* Interchangeable with Cash Credit

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has downgraded its ratings on the bank facilities of Innovative Tyres and Tubes Limited (ITTL) to '**CRISIL BBB-/Stable/CRISIL A3**' from 'CRISIL BBB+/Stable/CRISIL A2'.

The downgrade reflects CRISIL's belief that ITTL's profitability will remain muted compared to the past and will restrain the company's business risk profile. During fiscal 2019, ITTL's operating margin had halved to around 5% amid increased raw material cost and the company's inability to fully pass it on to customers, which are large, established players. Though the margin is expected to recover, it will remain constrained and lower than the earlier expectation, thereby restraining ITTL's return on capital employed (RoCE) and business risk profile. Also, while the capital structure remains healthy, liquidity has been constrained with high bank limit utilisation amid incremental working capital requirement and capital expenditure (capex) for capacity expansion.

The ratings reflect ITTL's moderate financial risk profile, backed by a healthy capital structure, and its sound business risk profile, driven by the extensive experience of the promoters and longstanding relationships with diverse customers. These strengths are partially offset by exposure to intense competition in the tyre industry and susceptibility to volatility in raw material prices.

Key Rating Drivers & Detailed Description

Strengths:

*** Moderate financial profile**

The company had a healthy capital structure reflected in networth and gearing of Rs 79 crore and 0.28 time, respectively, as on March 31, 2019. The networth improved sharply in fiscal 2018, driven by a successful initial public offering. The company had healthy net cash accrual to total debt ratio of 0.33 time and interest coverage of 4.56 times in fiscal 2019.

*** Promoters' extensive experience in the tyre industry**

The promoters Mr Mukesh Desai and Mr Pradeep Kothari have experience of more than 20 years in the tyre industry, which will continue to drive growth.

*** Diverse customer base**

ITTL supplies tyres to major players such as Apollo International Ltd, Eastman Industries Ltd, and Tionale Pte Ltd. Also, ITTL has been doing jobwork for CEAT Ltd since 1996. The company enjoys geographical diversification with export contributing almost equally as the domestic business to revenue. The company also generates around a fifth of revenue through sales from its own outlets.

Weaknesses:

*** Exposure to intense competition in tyres industry**

The tyre industry in India is dominated by a few large players. This exposes ITTL to intense competition and pricing pressures. Being a supplier to some of these players, ITTL can grow with these players, but has limited bargaining power. Despite widespread presence across domestic and overseas markets, ITTL's scale of operations has remained modest, as reflected in revenue of Rs 172 crore in fiscal 2019. CRISIL believes modest scale of operations and exposure to intense competition will keep ITTL's operating margin range bound.

*** Susceptibility of the operating margin to volatility in raw material prices**

ITTL's profitability is vulnerable to movements in the price of key raw materials, rubber and carbon black, which account for 60-70% of the total cost structure of the company and have volatile prices. Adverse raw material price movement led to moderation in profitability in fiscal 2019. CRISIL believes ITTL's profitability will remain susceptible to fluctuations in raw material prices.

Liquidity Adequate

Liquidity is adequate because of sufficient accrual to meet debt obligation, and healthy financial flexibility, despite high bank limit utilisation. Accrual is expected at Rs 10-12 crore against debt obligation of less than Rs 2 crore annually. The bank limit utilisation was high at 96% on an average over the 12 months through June 2019, because of large working capital requirement and ramp-up of operations. However, the company enjoys high financial flexibility because of low leverage.

Outlook: Stable

CRISIL believes ITTL's business risk profile will remain stable over the medium term supported by its promoters' experience and its diversified customer base.

Rating sensitivity factors

Upward factors

- * Sustained increase in revenue by 20% and recovery in operating margin to the historical level
- * Improvement in working capital cycle or liquidity

Downward factors

- * Decline in operating profitability by 100 basis points
- * Lower-than-expected accrual or a stretch in the working capital cycle

About the Company

ITTL manufactures and exports bias tyres. It offers a wide range of products in the truck/bus, agricultural and OTR, and motorcycle/three-wheeler segments. In addition to presence in Gujarat, Maharashtra, Delhi, and Punjab, ITTL exports to more than 40 countries across 5 continents. Its manufacturing plants are at Halol in Gujarat.

Key Financial Indicators

As on / for the period ended March 31		2019	2018
Operating income	Rs crore	172	141
Reported profit after tax	Rs crore	1	2
PAT margin	%	0.6	1.5
Adjusted debt/adjusted network	Times	0.28	0.16
Interest coverage	Times	4.56	4.96

Status of non cooperation with previous CRA:

ITTL has not cooperated with India Ratings and Research, which has classified the company as an issuer not cooperative through a release dated September 17, 2019. The reason provided by India Ratings and Research is non-furnishing of information for monitoring of ratings.

Any other information: Not applicable

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Rating Assigned with Outlook
NA	Cash Credit*	NA	NA	NA	15	CRISIL BBB-/Stable
NA	Standby Line of Credit#	NA	NA	NA	1	CRISIL BBB-/Stable
NA	Term Loan	NA	NA	Nov-21	4.62	CRISIL BBB-/Stable
NA	Term Loan	NA	NA	Mar-23	4	CRISIL BBB-/Stable
NA	Letter of Credit	NA	NA	NA	2.5	CRISIL BBB-/Stable
NA	Letter of Credit	NA	NA	NA	11.5	CRISIL A3
NA	Bank Guarantee	NA	NA	NA	1	CRISIL A3
NA	Foreign Exchange Forward	NA	NA	NA	1	CRISIL A3

*Includes sublimit of Rs 12.25 crore for export packing credit, packing credit in foreign currency, foreign bill discounting and rediscounting of export bills abroad, and interchangeable with letter of credit up to Rs 5.00 crore

#Interchangeable with cash credit

Annexure - Rating History for last 3 Years

		Current		2019 (History)		2018		2017		2016		Start of 2016
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	25.62	CRISIL BBB-/Stable/CRISIL A3			15-10-18	CRISIL BBB+/Stable/CRISIL A2		--		--	--
						29-09-18	CRISIL BBB+/Stable					
Non Fund-based Bank Facilities	LT/ST	15.00	CRISIL BBB-/Stable/CRISIL A3			15-10-18	CRISIL BBB+/Stable/CRISIL A2		--		--	--

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	1	CRISIL A3	Bank Guarantee	1	CRISIL A2
Cash Credit*	15	CRISIL BBB- /Stable	Cash Credit*	15	CRISIL BBB+/Stable
Foreign Exchange Forward	1	CRISIL A3	Foreign Exchange Forward	1	CRISIL A2
Letter of Credit	11.5	CRISIL A3	Letter of Credit	11.5	CRISIL A2
Letter of Credit	2.5	CRISIL BBB- /Stable	Letter of Credit#	2.5	CRISIL BBB+/Stable
Standby Line of Credit#	1	CRISIL BBB- /Stable	Standby Line of Credit	1	CRISIL BBB+/Stable
Term Loan	8.62	CRISIL BBB- /Stable	Term Loan	8.62	CRISIL BBB+/Stable
Total	40.62	--	Total	40.62	--

*Includes sublimit of Rs 12.25 crore for export packing credit, packing credit in foreign currency, foreign bill discounting and rediscounting of export bills abroad, and interchangeable with letter of credit up to Rs 5.00 crore

#Interchangeable with cash credit

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[Rating criteria for manufacturing and service sector companies](#)

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