ITL Industries Limited
September 28, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	3.50	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Assigned**
Long-term/Short-term Bank Facilities	14.00	**CARE BBB; Stable/CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)**	**Assigned**
Short-term bank facilities	6.50	**CARE A3+ (A Three Plus)**	**Assigned**
Total	**24.00 (Rs. Twenty Four crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key rating Drivers

The ratings assigned to the bank facilities of ITL Industries Limited (ITL) derive comfort from qualified and experienced management with its long track record of operations in the industry and diversified and well known customer and supplier base. The ratings, further, get strength from diversified revenue stream and its financial risk profile marked by comfortable profitability margins and comfortable solvency position.

These strengths offset to an extent on account of its working capital intensive nature of operations marked by elongated operating cycle, its presence in highly competitive industry and vulnerability of margins to fluctuation in raw material prices. The ratings, further, constrained on account of project implementation risk associated with it.

The ability of ITL to increase its scale of operations while improving profitability in a highly competitive and fragmented industry with efficient management of working capital and successful completion of project shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and qualified management in the industry

ITL is promoted by Mr. Manohar Singh Jain, Director, who has business experience of more than five decades. He is assisted by his two sons, Mr. Rajendra Singh Jain, Managing Director and Mr. Mahendra Singh Jain, Joint Managing Director, who looks after the overall management of the company. The board of directors also includes three independent directors who also have rich experience in the engineering industry. The top management is assisted by second tier management. The company also has Research and Development (R&D) team which looks after continuous up gradations of existing machines as well as development of new machines according to needs of the customers in the market.

Long track record of operations with diversified and well known customer base as well as supplier base

With the long standing presence in the industry, the management has established good relationships with the customers and suppliers. Due to quality of products, ITL has been receiving repeat orders from its customers.

ITL has diversified order book across various end user industries such as general engineering, forging, automotive, auto components, power and metals. ITL through its technical capabilities and strong R&D focus continues to invest in developing machines to cater to the specific demands of these customers. ITL has long-standing relationship with these customers. The diversified customer and supplier base is also reflected by top five customers and supplier contributing around 11.40% of total sales and 50.14% of total purchases during FY17 (FY refers to the period April 01 to March 31).

Diversified revenue stream

The entire spectrum of the revenue of ITL is well diversified and gets generated from various sources which reduce dependence of income on any solitary source. The company manufactures various types of machines as well as tools. Further, ITL is also an authorized distributor of EATON Fluid Power Corp. for Hydraulic Equipment's & Components for the State of Madhya Pradesh, Rajasthan, New Delhi and Punjab. During FY17, it has generated 74.00% (77.55% of gross sales in FY16) of gross sales from manufacturing division and 32.90% (Rs.16.76 crore which constituted 29.67% in FY16) of gross Sales from trading division. Further, ITL is having presence in domestic market as well in foreign market. Further, revenue from export improved to Rs. 2.63 crore in FY17 from Rs. 1.62 crore in FY16. Further, in FY17 the ITL has entered into an agreement with Hyd-Mech Group, Germany, to sell products manufactured by ITL in foreign market. During FY17, Total

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

Operating Income (TOI) of the company has improved significantly by 24.11% over FY16 mainly on account of increase in sales of manufactured products as well as traded goods in domestic market as well as in foreign market.
Further, in FY18, TOI of the company has increased by 19.57% and stood at Rs.83.83 crore.

Comfortable profitability margins
Profitability margins of the company stood comfortable as reflected by PBILDT and PAT margin of 10.95% and 5.33% respectively in FY17. During FY17, PBILDT margin of the company has improved by 117 bps over FY16 on account of lower employee cost as a percentage of TOI which set off to some extent by higher raw material cost. In line with improvement in PBILDT margin, PAT margin has improved by 161 bps in FY17 over last financial year owing to decrease in depreciation charge which is partially offset by increase in interest expenses. In FY17, Gross Cash Accruals of the company has improved by 53.77% over FY16 and stood at Rs.4.75 crore.
During FY18, PBILDT and PAT margin stood at 10.59% and 6.11% respectively in FY18.

Comfortable capital structure and debt coverage indicators
The capital structure of the company stood comfortable with an overall gearing of 0.47 times as on March 31, 2017, improved from 0.77 times as on March 31, 2016 owing to scheduled repayment of term debt, lower utilization of working capital borrowings as on balance sheet date and accretion of profit to reserves. Further, the debt service coverage indicators of the company stood comfortable marked by total debt to GCA of 2.70 times as on March 31, 2017, improved from 5.93 times as on March 31, 2016 owing to increase in GCA and decline in total debt level. Further, interest coverage has improved from 2.53 times in FY16 to 3.38 times in FY17.

Key Rating Weakness
Working capital intensive nature of operations
The company's operations are working capital intensive with funds blocked in the inventory. The company maintains higher inventory of raw material & bought out components, WIP and trading goods. The company executes its orders within three to four months and to meet out the demand of the customers within time frame it maintains inventory. Due to high inventory, operating cycle stood elongated at 171 days in FY17. It has utilized average 64.16% of its working capital bank borrowings during last twelve months ended February, 2018.

Project implementation risk
In FY18, ITL undertook a project for development and setting up of tube mill line to produce S.S. Tubes through laser welding technology. ITL has envisaged total project cost of Rs.5.06 crore towards the project to be funded through term loan of Rs.3.50 crore and remaining through internal accruals. Till March 28, 2018, ITL has incurred total cost of Rs.3.50 crore towards the project funded through term loan of Rs.1.72 crore and remaining through internal accruals. ITL envisaged that the projection will be completed by end of December 2018.

Presence in highly competitive machine tools industry
In machine tool industry, continuous technological changes are taking place at rapid pace. In the absence of any technological tie up with established player in the industry, ITL will have to continuous put focus on in house development of the technology and add new models to its existing product line to remain competitive in the industry.

Vulnerability of margins to fluctuation in raw material prices
Raw material constitutes a major portion of the company's cost structure and given the competitive industry, the company has limited power to pass on the increase in raw material pricing to the consumer.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Manufacturing Sector
Financial ratios – Non-Financial Sector

About the Company
Indore based ITL Industries Limited (ITL) was formed as a partnership firm in 1985 and subsequently, converted to private limited company and then to public limited company in 1989. The company manufactures manual and automatic metal cutting machines such as band saw & circular saw machines and pipe & tube manufacturing machines. ITL is also the supplier of bimetal band saw blades, hacksaw blades and other tools. The plant of the company is located at plot of

approx. 4 Acres having covered area of about 108,000 square feet and additional land available for shed expansion approx. 44,000 square feet.
Further, ITL is also an authorized distributor of United State based EATON Fluid Power Corp. for hydraulic equipments & components for the state of Madhya Pradesh, Rajasthan, NCR and Punjab.
Furthermore, ITL has launched web portal by the name of 'www.esupplyworld.com' for industrial supply division wherein about 120,000 products required by the engineering industries are traded online through a dynamic web portal. This web portal is operational from November 2013.
The company has got recognition for its in house Research & Development unit from Ministry of Science and Technology (Government of India).
Furthermore, the promoters of ITL have also promoted Remswegs Marketing Private Limited (RMPL), Indore Tools Private Limited (ITPL), M. M. Metals Private Limited (MMM) and Dimart Engineering Private Limited (DEPL).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	70.11	83.83
PBILDT	7.68	8.88
PAT	3.74	5.12
Overall gearing (times)	0.47	0.34
Interest coverage (times)	3.38	6.78

A: Audited

Status of non-cooperation with previous CRA: Brickworks has put the facilities into Non-Cooperation vide press release dated April 26, 2018 on account of best available information.

Any other information: None

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	May 2025	3.50	CARE BBB; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	14.00	CARE BBB; Stable / CARE A3+
Fund-based - ST-Standby Line of Credit	-	-	-	1.00	CARE A3+
Non-fund-based - ST-Letter of credit	-	-	-	2.00	CARE A3+
Non-fund-based - ST-Bank Guarantees	-	-	-	3.50	CARE A3+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	3.50	CARE BBB; Stable	-	-	-	-
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	14.00	CARE BBB; Stable / CARE A3+	-	-	-	-
3.	Fund-based - ST-Standby Line of Credit	ST	1.00	CARE A3+	-	-	-	-
4.	Non-fund-based - ST-Letter of credit	ST	2.00	CARE A3+	-	-	-	-
5.	Non-fund-based - ST-Bank Guarantees	ST	3.50	CARE A3+	-	-	-	-

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CIN - L67190MH1993PLC071691