December 27, 2021

Phoenix Conveyor Belt India (P) Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Fund based Limits – Bank Guarantee/ Letter of Credit	131.00	131.00	[ICRA]A+ (Stable)/ [ICRA]A1+; Reaffirmed
Total	**131.00**	**131.00**	

* *Instrument details are provided in Annexure-1*

Rationale

The ratings take into consideration PCBIPL's conservative capital structure, the company's debt-free position as on date and a large cash balance, which provide considerable financial flexibility. The ratings also considered the continued focus of the company on execution of high value-added products, which resulted in better operating margin in CY2020. However, the margin moderated in 9M CY2021 owing to a significant increase in raw material prices, which the company was unable to fully pass on to the end customers. PCBIPL has started incorporating price-variation clause in all new contracts with long lead time from H2 CY2021 to mitigate the price risk, which is likely to support the margins from CY2022. The order book remained moderate at around Rs. 171 crore as on date. At present, demand from the replacement market is better compared to demand from original equipment manufacturers (OEMs). Consequently, the revenue is likely to be maintained in CY2021 and a moderate growth of 3-5% is expected in CY2022. The ratings also factor in PCBIPL's dominant position in the domestic conveyor belt industry, its reputed customer base comprising players from various end-user industries, which mitigates the counterparty risks to an extent, and the company's strong parentage for being a part of the Continental Group, which benefits it in terms of access to better technology as well as raw material sourcing. While assigning the ratings, ICRA has considered the rating of the company's ultimate parent, Continental AG, which stands at Baa2 (Negative), assigned by Moody's.

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The ratings, however, continue to remain constrained by the intense competition in the traditional conveyor belt industry, which keeps margins of all players, including PCBIPL, under check. The company's profits also remain susceptible to volatility in the price of rubber, its key raw material, with sharp fluctuations impacting the performance. ICRA also notes that the scale of operation has continuously declined in the last several years and its margins also remained volatile. With changes in the business strategy towards executing projects in the niche segment, the margins have improved in the last two years. Going forward, a significant improvement in revenue and profitability will remain the key rating factors.

A Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that PCBIPL will continue to benefit from its established brand, track record of operations, change in strategy and strong parent support in the conveyor belts manufacturing business.

Key rating drivers and their description

Credit strengths

Dominant position in the domestic conveyor belt industry; support from parent further strengthens market position – PCBIPL is involved in the conveyor belt manufacturing business. The company's product portfolio consists of steel cord reinforced (SR) and textile reinforced (TX) conveyor belts. SR belts contributed around 71% to its revenues in CY2020, while TR belts contributed around 25% and the balance was contributed by splicing materials. It is one of the dominant players in the steel cord reinforced conveyor belt segment in India. The company is a 100% step-down subsidiary of Continental AG (rated at Baa2, Negative by Moody's), and derives benefits in the form of technical know-how and raw material sourcing support provided by its parent.

Reputed customer base from OEMs and replacement market segments – The conveyor belts manufactured by the company find application in sectors that require bulk material handling including mining, power, steel, cement and ports. Therefore, the primary customers of the company include reputed players from these industries. While the initial requirement for the belt usually originates at the time of project execution, considerable replacement demand also exists as the belts have an average life of around 3-5 years. However, ICRA notes that PCBIPL is exposed to the overall economic cycles as most of the user industries are cyclical in nature.

Conservative capital structure along with substantial cash balance leads to a favourable financial risk profile – PCBIPL is a debt-free company and maintains a healthy cash/bank balance of around Rs. 160 crore as on date. The healthy cash/bank balance provides strong financial flexibility to the company. As the normal capex is expected to be funded by internal accruals, PCBIPL is likely to remain debt free over the near term as well.

Focus towards higher value-added products boosts overall margins– Since the middle of CY2018, there has been a shift in strategy and PCBIPL is focussing more on niche segment of products like, pipe conveyor, side wall conveyor, heat resistant belt, heavy-duty tunneling belt etc, where margins are relatively higher than conventional belts. The basic objective is to look for profitable orders where competition is less rather than increasing the top line. The company also plans to grow in the service business – supervision for jointing and splicing, digital services (like scanning devices with data analytics) and service materials.

Credit challenges

Declining scale of operations over the past few years, however, margins improved owing to high value-added product – PCBIPL's operating income continued to fall over the past several years primarily on the back of declining sales volumes. The margin also remained volatile over the years, however, in CY2020, the performance had improved. While the revenue was lower, the operating margin (OPM) had increased to 10.6% in CY2020 compared to 1.9% in CY2019.

In 9M CY2021, the company reported revenue of Rs. 154 crore and an OPM of ~6%. The increase in raw material cost primarily resulted in lower margins compared to CY2020. Though the company has re-negotiated the contracts with the clients, the company also had to absorb certain portion, resulting in lower margins. To mitigate the same, PCBIPL has started incorporating price-variation clause in all new contracts with long lead time from H2 CY2021, which is likely to support the margins from CY2022.

Low order-book position on a comparative basis – PCBIPL has an outstanding order book of around Rs. 171 crore as on date (0.8 times of OI in CY2020), which are scheduled to be executed in the next 6-9 months. ICRA notes that the company's low order book position leads to limited revenue visibility in the near term.

Susceptibility of profits to volatility in prices of input materials – The price of raw materials namely, steel, rubber and carbon black witnesses high volatility. Rubber is one of the major raw materials, beside steel cord and textile/ fabric, for manufacturing conveyor belt, which constitutes around 40% of the company's total raw material costs. The company uses 70% of its total requirement from synthetic rubber and the balance from natural rubber.

The company enters a Price variation clause (PVC) in contracts undertaken with few large parties. But, in the past, PVC in contracts with other parties was not a standard practice. However, the company has now taken a decision to quote the PVC formula for contracts with long lead time from the second half of the current fiscal to protect the margins in the future.

Liquidity position: Strong

In view of surplus cash/ bank balance, and absence of any major capital expenditure plan and long-term debt service obligations, ICRA expects the overall liquidity position of PCBIPL to remain strong, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade PCBIPL's ratings if the entity demonstrates a significant improvement in turnover and profitability, favourably impacting the coverage indicators of the company.

Negative factors –Pressure on PCBIPL's ratings may arise, if the entity incurs losses at the net level and/or if there is an increase in working capital intensity of operations, adversely impacting the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered standalone financial statement of PCBIPL

About the company

Phoenix Conveyor Belt India (P) Limited (PCBIPL, formerly known as Phoenix Yule Limited) was incorporated in 1998 as a 74:26 joint venture (JV) between Phoenix AG (a part of Continental AG) and Andrew Yule & Company Limited (AYCL). The company became a 100% subsidiary of ContiTech Transportbandsysteme GmbH (formerly known as Contitech AG (a part of Continental AG) after AYCL sold off its stake to ContiTech Transportbandsysteme GmbH in 2009. With its plant at Kalyani in West Bengal, PCBIPL is one of the largest manufacturers of steel cord conveyor belts.

Key financial indicators (audited)

Consolidated	CY2019A	CY2020A
Operating Income (Rs. crore)	257.92	226.25
PAT (Rs. crore)	-8.93	15.75
OPBDIT/OI (%)	1.88%	10.55%
PAT/OI (%)	-3.46%	6.96%
Total Outside Liabilities/Tangible Net Worth (times)	0.28	0.26
Total Debt/OPBDIT (times)	0.00	0.00
Interest Coverage (times)	11.02	36.72
DSCR(times)	22.57	41.80

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding as on 31-Mar-2021	Rating	FY2021	FY2020	FY2019
				-	27-Dec-2021	3-Dec-2020	31-Jul-2019	-
1	**Overdraft/ Bill Discounting#**	Long Term/ Short Term	-	-	-	-	[ICRA]A+ (Stable)/ [ICRA]A1+	-
2	**Bank Guarantee/ Letter of Credit**	Long Term/ Short Term	131.00	-	**[ICRA]A+ (Stable)/ [ICRA]A1+**	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	-

Amount in Rs. crore
Source: Phoenix Conveyor Belt India (P) Limited

Complexity level of the rated instruments

Instrument	Complexity Indicator
NFB – Letter of Credit/ Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank Guarantee/ Letter of Credit	-	-	-	131.00	[ICRA]A+ (Stable)/ [ICRA]A1+

Source: Phoenix Conveyor Belt India (P) Limited

Annexure-2: List of entities considered for consolidated analysis -Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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