September 16, 2022

CTR Manufacturing Industries Private Limited: Long-term rating upgraded to [ICRA]A+(Stable); short-term rating reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based- Cash credit	52.00	52.00	[ICRA]A+ (Stable); upgraded from [ICRA]A (Positive); outlook revised to Stable from Positive
Short-term fund-based - Bills discounting	20.00	20.00	[ICRA]A1; reaffirmed
Short-term non-fund-based - Working capital facilities	52.00	52.00	[ICRA]A1; reaffirmed
Total	**124.00**	**124.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in the strong performance of CTR Manufacturing Industries Private Limited (CTR/the company) in FY2022 (as per the provisional [P] financial statements) with the improvement in its scale of operations and lower working capital intensity of operations as the reduction in debtor days and inventory position strengthened the liquidity position. ICRA expects the company to report continued healthy revenue, driven by favourable demand prospects and expansion in profits with the recent softening of raw material prices. The disruption caused by the pandemic resulted in an operating income of Rs. 272.4 crore in FY2021 with a comfortable operating margin of 17.1%, aided by its cost control measures and better pricing for its products. CTR reported a healthy revenue growth of 23.8% at Rs. 337.2 crore in FY2022 with an operating profit margin (OPM) of ~13.2% (as per provisional financials), aided by a healthy demand for its products.

ICRA has also taken note of the company's improved liquidity position, which included healthy free cash and bank balances and short-term liquid investments aggregating to over Rs. 110.0 crore as on March 31, 2022. Going forward, the company is expected to witness a reasonable scale-up in volumes over the medium term, aided by the increasing number of transformers being set up across the country because of the rising demand for power.

The ratings continue to derive comfort from the company's strong financial profile as reflected in its comfortable capital structure owing to low reliance on external debt and consequently its healthy debt protection metrics. Further, the ratings continue to factor in the well-established position of CTR in the transformer ancillaries industry, led by its sizeable market share in the domestic market and a reputed customer base. ICRA also notes that the company has access to superior technology by virtue of its multiple collaborations with reputed technology companies worldwide.

The ratings, however, continue to be constrained by the company's s moderate scale of operations coupled with a stretched receivable cycle with sizeable overdue receivables as on March 31, 2022. ICRA, however, notes that the company has been making constant efforts to streamline its debtor position through favourable arbitration directives and recovery measures, which will be a key monitorable. Although the company's receivables position has shown some improvement to 162 days in FY2022 from 188 days in FY2021 and 182 days in FY2020, it continues to be stretched. The ratings also take into consideration the susceptibility of demand for transformers and its ancillaries to Government policies along with the increasing competition from existing domestic players as well as potential entry of international players; however, the company's entry into new industries alleviates these concerns to some extent.

The Stable outlook on the long-term rating reflects ICRA's opinion that CTR will continue to benefit from the extensive experience of its promoters, its strong net worth base and healthy liquidity position. Further, the company's operations shall remain supported by the Government's continuing thrust on infrastructure to support growth.

Key rating drivers and their description

Credit strengths

Well-established position with sizeable market share and reputed customer base – CTR has established a strong position in the market with a sizeable share in flange-mounted tap changers, in-tank tap changers and fire prevention systems, which constitute its key products. CTR also has a diversified and reputed customer profile, which includes established transformer companies such as Bharat Bijlee Limited, Atlanta Electricals Pvt. Ltd., Transformers & Rectifiers of India and Voltamp Transformers Limited. The diverse client base is underscored by the fact that none of the customers contributed to more than 9% of the company's sales in FY2022[P]. Further, the operating income improved to Rs. 337.2 crore in FY2022[P] against Rs. 272.4 crore in FY2021. Going forward, the company is expected to witness a reasonable scale-up in volumes over the medium term, aided by the increasing number of transformers being set up across the country with the growing demand for power.

Access to superior technology through collaboration with reputed multinational technology companies – CTR has historically followed a strategy of entering into technological collaborations with leading global companies such as CFR, Switzerland, for plastic film capacitors, ELIN OLTC, Austria, for in-tank tap changers and ELIN Energieversorgung, Austria, for fire prevention systems. As a result, over the years, the company has gained sufficient technical expertise to develop its own products through in-house research and development (R&D) that has ensured established relations with key transformer manufacturers and repeat orders.

Healthy financial position – CTR has been able to maintain consistently high EBITDA margins. In FY2021, despite the impact of the pandemic, the company was able to maintain healthy margins of 17.1% even as its operating income declined. However, with rising operating expenses and some debtor write-offs, the operating margin moderated to 13.2% in FY2022[P]. Further, with low external borrowings, the capital structure and coverage indicators remained comfortable. The company's gearing was 0.13 times and TD/OPBDITA was 0.93 times in FY2022[P]. CTR is expected to generate stable cash flows in the coming years with a scale-up in its overall business. Further, with a moderate level of capex, the expected revenue growth along with a healthy profitability is likely to keep the company's reliance on debt low and its capitalisation and coverage metrics are likely to remain comfortable.

Healthy free cash and bank balance – There has been a substantial improvement in the company's liquidity on account of healthy profit generation and absence of any major capex. As on March 31, 2022, CTR had healthy cash and bank balance, supported by liquid mutual funds.

Credit challenges

Moderate scale of operations – The company's operating scale has remained moderate over the past few years. However, the operating income grew by 23.8% in FY2022[P] on account of the low base of FY2021 because of the pandemic. Nonetheless, with a healthy order book, a short execution cycle, steady replacement demand and an expanding transmission and distribution network, the company is expected to report a healthy growth in revenues in FY2023.

Stretched receivable position with sizeable dues pending for over 180 days – The company provides a credit period of 90 to 120 days to its customers and avails a similar credit period from its suppliers. Though the company's debtor days improved to 162 days in FY2022 compared to the previous years, they continue to be high. Delay in the collection of receivables from customers who are primarily EPC contractors/transformer companies and the requirement of retention money for certain customers are some of the reason for a stretched debtor cycle. The receivables outstanding for more than six months continued to be very high at Rs. 21.4 crore as on March 31, 2022, though lower than Rs. 41.3 crore as on March 31, 2021, partly on account of the management's focus on collections and some overdue debtors being written off.

Demand for transformer ancillaries susceptible to Government policies, increasing competition from existing domestic and international players – The demand for transformers and its ancillaries is cyclical and is driven by investments in the power sector, which in turn is dependent on Government policies and initiatives. Moreover, there could be a potential entry of international players, which will increase the competitive intensity for CTR. Thus, the company's operating income and profits remain vulnerable to these factors.

Liquidity position: Strong

The company's liquidity position is strong, led by comfortable cushion available in the form of undrawn working capital limits and healthy cash accruals. CTR had no outstanding term loans on its books as on March 31, 2022, while it had healthy free cash and bank balances and short-term liquid investments aggregating over Rs. 110.0 crore as on March 31, 2022. The average working capital utilisation was 21% during the 12-month period ended July 2022, pointing to sizeable unutilised working capital facilities, that also lends financial flexibility. CTR plans to incur a routine capital expenditure of Rs. 10.00-15.0 crore in the next two years which would be funded through internal accruals. The liquidity is expected to remain healthy and ICRA does not foresee any major concerns on liquidity, given the company's healthy operating profit levels and sufficient amount of unutilised working capital limits.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company reflects a significant improvement in its revenue and profitability on a sustained basis. Further, improvement in the liquidity position shall also be a rating positive.

Negative factors – Negative pressure on the ratings could emerge if the company undertakes a sizeable debt-funded capital expenditure or if there is a stretch in the working capital cycle. Any reduction in the operating margin and cash flows may also warrant a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

CTR, incorporated in December 1964 by Mr. Pratap Kumar as a public limited company, is engaged in the manufacturing of transformer ancillaries, with tap changers, fire prevention systems and radiators forming the company's key products. The company's operations are headed by Mr. V.K. Wakchaure, who is the Managing Director of the company. CTR has its head office in Pune and manufacturing facilities in Pune, Aurangabad and Nasik.

Key financial indicators

	FY2020 Audited	FY2021 Audited	FY2022 Provisional
Operating income (Rs. crore)	347.3	272.4	337.2
PAT (Rs. crore)	43.0	31.9	29.2
OPBDIT/OI (%)	18.7%	17.1%	13.2%
PAT/OI (%)	12.4%	11.7%	8.6%
Total outside liabilities/Tangible net worth (times)	0.6	0.6	0.6
Total debt/OPBDIT (times)	0.2	0.7	0.9
Interest coverage (times)	24.8	23.1	16.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: CTR Manufacturing Industries Private Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Jun 30, 2022 (Rs. crore)	Date & rating on	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Sep 16, 2022	Aug 10, 2021	-	Mar 19, 2020
1	Long-term Fund-based- Cash Credit	Long-Term	52.00	-	**[ICRA]A+ (Stable)**	[ICRA]A (Positive)	-	[ICRA]A (Stable)
2	Short-term Fund-based - Bills Discounting	Short-Term	20.00	-	**[ICRA]A1**	[ICRA]A1	-	[ICRA]A1
3	Short-term Non-Fund-based – LC/BG	Short-Term	52.00	-	**[ICRA]A1**	[ICRA]A1	-	[ICRA]A1
4	Long-term Fund-based- Term Loan	Long-Term	-	-	**-**	-	-	[ICRA]A (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund-based- Cash Credit	Simple
Short-term Fund-based - Bills Discounting	Simple
Short-term Non-Fund-based – Working Capital Facilities	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 are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-based- Cash Credit	NA	NA	NA	52.00	[ICRA]A+ (Stable)
NA	Short-term Fund-based - Bills Discounting	NA	NA	NA	20.00	[ICRA]A1
NA	Short-term Non-Fund-based – LC/BG	NA	NA	NA	52.00	[ICRA]A1

Source: CTR Manufacturing Industries Private 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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