

September 20, 2024

Cotmac Electronics Private Limited: [ICRA]BBB+ (Stable)/ [ICRA]A2; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund based – Cash Credit	10.00	[ICRA]BBB+ (Stable); assigned
Short-term – Non fund based – Letter of Credit	20.00	[ICRA]A2; assigned
Total	30.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings assigned to the bank lines of Cotmac Electronics Private Limited (CEPL) considers the extensive experience of the promoters in the automation solutions business, diversified end-user industry applications, its long partnership with Siemens as an authorised distributor of automation products, an established customer base and favourable demand scenario, thus providing healthy revenue visibility. The ratings also favourably consider CEPL's growing scale of operations, driven by its focus on manufacturing of control panels, which has also enabled the company to maintain its stable profit margins and earnings.

The ratings, however, are constrained by the working capital-intensive nature of CEPL's business, primarily due to an elongated receivables cycle and high inventory levels. The ratings also consider the vulnerability of margins to moderate share of trading business and fixed price nature of contracts in the manufacturing segment. Over the past two years, the company's increasing inventory requirements (amid scale-up of operations) and semiconductor availability issues led to a rise in the borrowing level, thus weakening the debt protection metrics in the last two fiscals. With easing of semiconductor availability issues, the inventory levels are expected to come down in the current fiscal. The company's ability to efficiently manage its working capital, particularly inventory, will remain crucial from the ratings perspective.

ICRA also notes that the company had conflict with its minority shareholders regarding management/ strategic issues, which got settled under the mediator assigned by the Supreme Court in FY2024. To facilitate the exit of these shareholders, CEPL agreed to buy back shares worth ~Rs. 26 crore, of which it has already paid Rs. 14 crore till April 2024, with the final payment of Rs. 12 crore due in FY2026.

The Stable outlook on the long-term rating reflects the company's proven expertise in automation solutions business, which is expected to support its business profile on an ongoing basis and its focus on the manufacturing segment.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters – The company is a part of the 125-year-old N.A. Sirur Group, which originally started as a trader of cotton and cotton machinery. The current promoter, Mr. Arjun Sirur, has experience of more than 25 years with an extensive track record in the execution of automation projects across a wide range of industries and is assisted by a well-qualified technical team overlooking the project execution.

Diversified end-user industry profile – The company provides automation solutions to a broad array of industries, including distilleries and breweries, edible oil refineries, power, cement, pharmaceuticals, oil and gas, metals, etc. The company is also an authorised partner of Siemens India for its automation solutions business, which also adds to its service and product

offerings, other than its own panel manufacturing business. Diversified end-user application and favourable demand scenario provides healthy revenue visibility for the company.

Growing scale of operations, with focus on control panel manufacturing – Over the past four years, the company's top line witnessed a CAGR of 21%, with the same increasing to Rs. 743.6 in FY2024 from Rs. 341.6 crore in FY2020. The same has been driven by its increasing focus on the control panel manufacturing segment. The company is expected to clock a top line of Rs. 900-1,000 crore in FY2025, with higher share of manufacturing business, driven by steady demand from its key user industries. This is likely to enable the company to maintain its stable profit margins and earnings.

Credit challenges

Working capital intensive operations – CEPL's operations are highly working capital intensive, driven by substantial inventory requirements, as projects take 6-12 months to complete depending on the order size and site readiness. The inventory days remained elevated at around 116 in FY2024, largely due to scale-up in its manufacturing segment and global semiconductor shortage, which led to inventory build-up in both FY2023 and FY2024. Additionally, the company's receivables were high at 105 days as of FY2024. An increase in inventory holding and elongated receivables resulted in a higher working capital intensity, which rose to ~35.2% in FY2024 from 26.1% in FY2022. With increase in working capital requirements, the borrowing also increased to Rs. 181 crore in FY2024 from Rs. 14 crore in FY2022. Given the increasing scale of operations, the borrowing levels are expected to remain at elevated levels and would be highly sensitive to actual receivable cycle and inventory build-up. Hence, the ability of the company to manage its working capital in an efficient manner to keep borrowing at prudent level will remain a key rating monitorable.

Average margin level due to sizeable trading business – A significant portion of the company's revenue comes from the trading segment, which generate lower margin than the manufacturing segment. This limits the overall profitability as the trading business involves limited value addition and is exposed to pricing pressure due to competition. In the manufacturing business too, the margins remain exposed to competition in the automation solutions business as well as susceptibility to input cost pressure due to fixed price nature of the contracts.

Liquidity position: Adequate

CEPL's liquidity position is adequate, supported by minimal repayment obligations and limited capital expenditure plans in the near-to-medium term. The company's cash accruals are expected to be sufficient to cover these requirements. While utilisation level of the working capital remains high, sufficient drawing power provides flexibility, as reflected in the recent enhancement of Rs. 70 crore in working capital borrowings sanctioned in March 2024, which provides comfort to the liquidity profile. The company's average utilisation remained high at 77% over the past 12 months, with a buffer of ~Rs. 59 crore as of August 2024. Additionally, the liquidity is supported by CEPL's free cash and bank balances of Rs. 17.6 crore as of end-March 2024.

Rating sensitivities

Positive factors – ICRA could upgrade CEPL's ratings if steady increase in its scale of operations, profitability and working capital cycle, leads to an improvement in the overall financial profile and liquidity position on a sustained basis.

Negative factors – ICRA could downgrade CEPL's ratings if the company's scale and profitability decline on a sustained basis. Inability to efficiently manage its working capital cycle, impacting liquidity or its debt protection metrics, could also result in ratings downgrade. Specific trigger, which may lead to ratings downgrade include interest cover remaining less than 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. The entities analysed for the consolidated profile has been enlisted in Annexure 2

About the company

Incorporated in 1992, Cotmac Electronics Private Limited (CEPL) specialises in providing industrial automation solutions to a wide range of industries. The company is a part of the 125-year-old N.A. Sirur Group, which originally started as a trader of cotton and cotton machinery. CEPL has been an official distributor of Siemens India Ltd.'s automation products since its inception in 1992. Further, the company manufactures control panels for automation and is headquartered in Pune. It operates across 17 branches in India and has eight manufacturing facilities dedicated to control panel manufacturing. The company secures orders independently and has successfully completed over 11,000 projects across more than 70 countries.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	511.7	743.6
PAT	22.3	34.2
OPBDIT/OI	7.3%	8.8%
PAT/OI	4.4%	4.6%
Total outside liabilities/Tangible net worth (times)	1.4	2.0
Total debt/OPBDIT (times)	2.4	2.8
Interest coverage (times)	6.9	4.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current year (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	20-Sep-2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Long term-cash credit-fund based	Long Term	10.00	[ICRA]BBB+ (Stable)	-	-	-	-	-	-
Short term-letter of credit-non fund based	Short Term	20.00	[ICRA]A2	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Short -term – Non fund based – Letter of Credit	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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	10.00	[ICRA]BBB+ (Stable)
NA	Letter of Credit	NA	NA	NA	20.00	[ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
Cotmac Classtech Singapore Pte Ltd	70%	Full Consolidation
Cotmac Electronics Inc.	100%	Full Consolidation
Classitech Middle East DMCC	100%	Full Consolidation
Sibella Technologies Private Limited	100%	Full Consolidation
IAG Automation Private Limited	100%	Full Consolidation

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