

August 10, 2021

## CTR Manufacturing Industries Private Limited: Ratings reaffirmed; outlook revised to Positive from 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 reaffirmed, outlook revised to Positive from Stable
Long Term – Fund based Term Loan	20.00	0.00	-
Short-term Fund-based	20.00	20.00	[ICRA]A1; Reaffirmed
Short-term Non-Fund-based	52.00	52.00	[ICRA]A1; Reaffirmed
<b>Total</b>	<b>144.00</b>	<b>124.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The revision in outlook to Positive reflects ICRA's belief that CTR Manufacturing Industries Private Limited (CTR) will maintain its robust credit profile over the medium term, with its revenue growth being fueled by its diversification in various end user industries. While the company reported expected decline in revenues in FY2021, on account of Covid pandemic related challenges, its cost control measures and better pricing resulted in continued healthy operating profit margins. 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 its reputed customer base. ICRA also notes that the firm has access to superior technology by virtue of its multiple collaborations with reputed technology companies worldwide. ICRA has also taken positive note of the company's improved liquidity position due to reduction in receivable days and healthy profitability.

The ratings, however, continue to be constrained by the company's moderate scale of operations coupled with moderate working capital intensity of operations as reflected in net working capital (NWC) / operating income (OI) at 24% in FY2021 emanating from an elongated receivable cycle, with high debtor days. Although the company's receivables position has shown some improvement in FY2021, it continues to remain stretched. The ratings also take into consideration the susceptibility of demand for transformers and its ancillaries, to government policies along with 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.

### Key rating drivers and their description

#### Credit strengths

**Well established position of the company with sizeable market share and reputed customer base** – CTR has established a strong position in the market with sizeable share in flange mounted tapchangers, In-tank tapchangers 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 diversity in the client base is underscored by the fact that none of the above clients contributed to more than 8% of the company's sales in FY2021.

**Access to superior technology led by 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 Tapchangers 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).

**Healthy financial position characterised by consistent profitability levels and comfortable capital structure** : CTR has been able to maintain consistently high EBITDA margins which have ranged from 18.6% to 19.3% from FY201-FY2020. In FY2021, despite the impact of the Covid 19 pandemic, while the company's operating income saw a decline, it was able to maintain healthy margins of 17.81%. Strong profit margins coupled with low external borrowings have resulted in robust leverage and coverage indicators with gearing at 0.06 times and TD/OPBDITA of 0.24 times for FY2021.

**Healthy Free cash and bank balance:** There has been substantial improvement in the company's liquidity on account of healthy profit generation and absence of any major capex. As on March 31, 2021 CTR had healthy cash and bank balance well supported by liquid mutual funds.

### Credit challenges

**Moderate scale of operations** - The firm's operating scale has remained moderate with an operating income of Rs 276.97 crore registered in FY2021. There has been decline in revenues by 20% in FY2021 on account of the covid pandemic. Nonetheless with healthy order book and by venturing into new industries, the company is expected to report healthy growth in revenues in FY2022.

**Moderate working capital intensity due to stretched receivables** - The company provides a credit period of 90 to 150 days to its customers and avails a similar credit period from its suppliers. The company's debtor days at 177 days in FY2021, while an improvement relative to earlier years, are still high because of delay in collection of receivables and requirement of retention money for certain customers, which has translated into high working capital intensity with NWC/OI at 24% in FY2021.

**Demand for transformer ancillaries remains susceptible to government policies; Increasing competition from existing domestic and international players** - The demand for transformer 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 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, 2021 while it had healthy cash and bank balances as on March 31, 2021. Furthermore, as on March 31, 2021, the company also had adequate short-term liquid investments. The average working capital utilisation stood at 36% during the 12-month period ended June 2021. CTR plans to incur routine capital expenditure of Rs. 10.00 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 firm's healthy operating profit levels, and sufficient amount of unutilized working capital limits.

### Rating sensitivities

**Positive factors** - The ratings may be upgraded if the company is able to improve its receivables position and there is a steady improvement in its scale of operations and liquidity position on a sustained basis.

**Negative factors** - The outlook can be revised to stable if there is a further stretch in receivables cycle and decline in scale of operations or profitability on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

### About the company

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

In FY2021 on a provisional basis the company reported a net profit of Rs. 33.33 crore on an OI of Rs. 276.97 crore, as compared to a net profit of Rs. 43.02 crore on an OI of Rs 347.28 crore in the previous year.

### Key financial indicators (audited/provisional)

WIPL Standalone	FY2020	FY2021*
Operating Income (Rs. crore)	347.28	276.97
PAT (Rs. crore)	43.02	33.33
OPBDIT/OI (%)	18.71%	17.81%
PAT/OI (%)	12.39%	12.03%
Total Outside Liabilities/Tangible Net Worth (times)	0.59	0.51
Total Debt/OPBDIT (times)	0.15	0.36
Interest Coverage (times)	24.79	23.56

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

\*FY2021 financials are provisional financials

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 (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					August 10, 2021				
1	Fund-based-Cash Credit	Long-term	52.00	-	[ICRA]A (Positive)	-	[ICRA]A (Stable)	[ICRA]A (Stable)	
2	Fund based Term Loan	Long-term	0.00	-	-	-	[ICRA]A (Stable)	-	
3	Fund-based	Short-term	20.00	-	[ICRA]A1	-	[ICRA]A1	[ICRA]A1	
4	Non-Fund-based	Short-term	52.00	-	[ICRA]A1	-	[ICRA]A1	[ICRA]A1	

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term Fund based Limits	Simple
Short term -fund based	Simple
Short-term Non-fund Based	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 analyzing 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](http://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	Cash Credit	NA	NA	NA	52.00	[ICRA]A (Positive)
NA	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: Company

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

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