Captain Tractors Pvt. Ltd.

January 10, 2019

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loan	3.03	[ICRA]BB-(Stable); Assigned
Fund-based – Cash Credit	21.00^	[ICRA]BB-(Stable); Assigned
Non-fund-based - Letter of Credit	0.50#	[ICRA]A4; Assigned
Unallocated Limits	0.47	[ICRA]BB-(Stable)/A4; Assigned
Total	**25.00**	

*Instrument details are attached in Annexure-1

^Includes WCDL (Rs. 10.00 crore), Loan against FCNR (Rs. 15.00crore) and FBN/FBP/FBD/EPC/PCFC (Rs. 5.00crore) as sub limit of cash credit facility.

Includes Bank Guarantee (Rs. 0.50crore) and Loan Equivalent Risk (LER) (Rs. 0.50 crore) are sub limit of Letter of Credit facility.

Rationale

The assigned ratings are constrained by the company's weak financial risk profile, characterised by a leveraged capital structure, weak coverage indicators, high working capital intensity (NWC/OI of 39% in FY2018) and tight liquidity position with almost full utilisation of working capital limits. The assigned ratings are also constrained by the intense competition in the tractor manufacturing industry and susceptibility of demand to vagaries of monsoon and agricultural production.

The assigned ratings, however, favourably factor in the extensive experience of promoters in the tractor manufacturing industry along with its established brand and widespread dealer network. The ratings also favourably factor in the steady growth in revenue over the years supported by periodical enhancement in capacities and the favourable demand drivers with increasing Government focus on farm mechanisation and the current low levels of farm equipment penetration.

Outlook: Stable

ICRA believes that Captain Tractors Private Limited (CTPL) will continue to benefit from its extensive presence in the mini-tractor segment. The outlook may be revised to Positive, if there is a substantial improvement in the company's scale of operation and profit margins leading to higher-than-expected cash accruals and reduction in inventory days leading to reduced working debt requirement leading to the overall improvement in capital structure and debt protection metrics. The outlook may be revised to Negative if there is a substantial reduction in scale and profitability leading to lower-than-expected cash accruals, or in case of any major debt-funded capex or elongation in working capital cycle leading to deterioration in the capital structure and weakening of company's liquidity profile.

Key rating drivers

Credit strengths

Extensive experience of promoters in the tractor manufacturing business with established brand and a widespread dealer network – The promoters possess more than two decades of experience in the low HP tractor (less than 30 HP) manufacturing industry with its first tractor developed in 1998. Its brand "CAPTAIN" is an establish brand in the organised tractor segment and agricultural implements industry with a widespread dealer network. CTPL has a strong pan-India network of more than 150 dealers, apart from presence in the export markets. Export accounted for ~4% of its revenue in fiscal 2018 and will increase with higher penetration in new markets.

Steady growth in scale with periodic capacity expansion – CTPL's operating income (OI) has grown at a CAGR of ~14% over the last five years to Rs. 89.7 crore in FY2018 from Rs. 46.1 crore in FY2013 on account of an increase in the demand of mini-tractors in Gujarat, Maharashtra and Telangana. The growth was supported by periodical capacity enhancement and automatization undertaken in CTPL's plant from time to time.

Favourable long-term business prospects with current low levels of farm equipment penetration and favourable Government policies for the agricultural industry – Farm-labour shortage, small and scattered size of farm holdings, together with low levels of farm-equipment penetration and favourable Government policies for the agricultural sector, provides opportunities for the company's long-term growth. The Union Budget FY2019 laid out a higher fund allocation of Rs. 1,200 crore under farm mechanisation scheme. Further, various state governments like Telangana Government has also introduced various fiscal incentives for procurement of mini-tractors and implements for various farming activities, which is expected to benefit the mini-tractor segment players like CTPL.

Credit challenges

Average financial risk profile characterised by leveraged capital structure and weak coverage indicators – The company's total debt increased to Rs. 31.7 crore as on FY2018-end from Rs. 22.9 crore as on FY2017-end on account of a rise in long-term debt undertaken towards automatization of assembly line and unsecured loan from financial institutions for R&D expense and working capital requirement. This increase in debt levels had led to deterioration in the capital structure, as reflected by gearing of 2.6 times as on FY2018-end compared to 2.1 times as on FY2017-end. CTPL's coverage indicators have remained moderate as marked by an interest coverage of 2.1 times, TD/OPBIDTA of 4.8 times, NCA/TD of 11% and DSCR of 1.2 times as on FY2018-end.

Working capital intensive nature of operations – CTPL's operations remains working capital intensive as reflected by its high net working capital intensity (NWC/OI) of 39% as on FY2018-end on account of high inventory holdings of 180 days. The company's inventory holdings remain high due to its varied product profile/models leading to a high WIP and raw material requirements. Few inputs like tyres, batteries, etc are procured from the OEMs directly and needs to be procured in fixed lot sizes in order to avail favourable price benefit.

Limited market share in a highly competitive tractor industry – CTPL though remains an organised player in the tractor manufacturing sector, its share remains limited in the domestic market. The company cumulatively derived ~96% of its total sales from domestic operations with major sales from Gujarat (~71% of the total sales), Maharashtra (15% of total sales) and Telangana (~7% of the total sales). It faces intense competition from established and larger players such as Mahindra & Mahindra, Escorts, VST Tillers and Tractors Limited, TAFE. The company's limited pricing flexibility due to stiff competition, coupled with a low purchasing power of the target customers, makes its margins susceptible to rise in input costs. Its ability to gain market share in these areas remains critical, given the high growth potential of these regions.

Tractor industry remains cyclical with strong linkages to agricultural production and high dependence on monsoon – The tractor industry remains exposed to fluctuations in the demand scenario with sensitivity to monsoons and farmer sentiments. The continued commitment of the Union Government towards rural development and agri-mechanisation, through enhanced allocations to various farmer welfare and rural infrastructure development schemes, however, provides comfort and is likely to aid a growth in industry volumes over the medium to long-term.

Liquidity position

CTPL's fund flow from operations (FFO) has remained positive over the last five years and improved gradually over the years with an increase in its scale of operations. However, the free cash flows have turned negative in FY2018 due to a capex of Rs. 3.50 crore towards construction of semi-automatic assembly line and brand registration. Its overall liquidity position remains tight with almost full utilisation of the working capital limits during July 2017-September 2018 period.

Further, the company has sizeable debt repayment of Rs. 3.35 crore in FY2019 and Rs, 2.71 crore in FY2020. Hence, timely support from promoters through equity infusion/unsecured loans remains critical in case of any cash flow mismatch.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA's Rating methodology for Tractor industry
Parent/Group Support	Not applicable
Consolidation / Standalone	Not applicable

About the company

Incorporated in 1994, CTPL is owned and managed by the Movaliya family and is into manufacturing mini-tractors and implements. Mr. Gandubhai Movaliya and Mr. Magan Movaliya started the company and later on, their sons Mr. Rajesh Movaliya, Mr. Satish Movaliya, Mr. Nayan Movaliya, Mr. Kailash Movaliya and Mr. Shailesh Movaliya joined CTPL as directors of the business. The promoters developed its first mini-tractors in 1998 and started commercial operations from 2001 with implements introduced from 2002. Apart from domestic presence, it also supplies tractors and implements in the overseas markets like Africa, Saudi Arabia, Latin America, Iran, Bangladesh, Sri Lanka, Nepal and Myanmar through associate concern Captain Agri Machinery Exim LLP.

In FY2018, the company reported a net profit of Rs. 1.8 crore on an operating income (OI) of Rs. 89.7 crore as against a net profit of Rs. 1.3 crore on an OI of Rs. 82.4 crore in FY2017.

Key financial indicators (audited):

	FY2016	FY2017	FY2018
Operating Income (Rs. crore)	72.9	82.4	89.7
PAT (Rs. crore)	0.9	1.3	1.8
OPBDIT/ OI (%)	6.9%	7.3%	7.4%
RoCE (%)	13.2%	14.7%	13.4%
Total Debt/ TNW (times)	2.7	2.1	2.6
Total Debt/ OPBDIT (times)	4.6	3.8	4.8
Interest Coverage (times)	1.7	1.8	2.1

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2018 (Rs. crore)	Date & Rating January 2019	Date & Rating in FY2018 November 2017	Date & Rating in FY2017 November 2016	Date & Rating in FY2016 -
Term Loan	Long Term	3.03	2.00	[ICRA]BB- (Stable)	[ICRA]B+ Withdrawn	[ICRA]B+	-
Cash Credit	Long Term	21.00^	-	[ICRA]BB- (Stable)	[ICRA]B+ Withdrawn	[ICRA]B+	-
Letter of Credit	Short Term	0.50#	-	[ICRA]A4	[ICRA]A4 Withdrawn	[ICRA]A4	-
Unallocated Limits	Long Term	0.47	-	[ICRA]BB- (Stable)/A4	-	-	-

^WCDL, Loan against FCNR and FBN/FBP/FBD/EPC/PCFC are sub limit of cash credit
Bank Guarantee and Loan Equivalent Risk (LER) are sub limit of Letter of Credit

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	Term Loan	FY2012	NA	FY2023	3.03	[ICRA]BB- (Stable)
NA	Cash Credit	NA	NA	NA	21.00	[ICRA]BB- (Stable)
NA	Letter of Credit	NA	NA	NA	0.50	[ICRA]A4
NA	Unallocated Limits	NA	NA	NA	0.47	[ICRA]BB- (Stable)/A4

Source: CTPL

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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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