Yantra India Limited

November 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	950.00	CARE AA; Stable	Assigned
Long-term/Short-term bank facilities	50.00	CARE AA; Stable/CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Yantra India Limited (YIL) derives strength from its strategic importance to the Government of India (GoI) and its established market position in the defence sector. The ratings are also underpinned by the large manufacturing capacities with adequate pool of trained manpower, the high entry barriers within the industry's limiting competition, and the comfortable capital structure, marked by a strong net worth.

The ratings also take into account the moderate but recurring order book position, the support extended by the government by way of infusion of funds towards the capex requirements, and the minimal reliance on working capital borrowings as the company receives advance from defence public sector undertakings (DPSUs) – its primary customers. This apart, as the current employees of the company are on deputation from the Ministry of Defence, the expenses towards pension and gratuity are to be borne by the government.

These strengths are partially offset by the high dependence on DPSUs, which contributes to the bulk of its revenues, customer concentration risk, thin profitability margins, and its working capital-intensive nature of operations due to high inventory and receivables. Furthermore, the operating profit margins remain vulnerable to input cost fluctuations in its fixed-price contracts, albeit the same is mitigated to a certain extent with the presence of a price escalation clause. The ratings are also constrained on account of the teething challenges faced by new DPSUs in converting to a company, and the qualified statutory auditor's opinion pointing towards weak internal financial controls in some of the areas.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant and sustained improvement in the operating performance, leading to the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin sustaining beyond 5%.
- Gross current asset days sustaining under 130 days.

Negative factors

- Dilution in stake of the GoI to below 51% in the company.
- Any change in stance of the GoI support to YIL, reflecting in lower order inflows and revenues.
- Significant decline in the cash and liquid balances.
- Large debt-funded capex or sizeable working capital requirements, weakening the capital structure beyond 0.5x.

Analytical approach

Standalone, along with factoring in its 100% ownership by the GoI, for whom it is a strategically important entity in the defence sector.

Outlook: Stable

The stable outlook reflects that the rated entity is likely to maintain its established position as the major supplier of raw materials to the DPSU, namely, Munitions India Limited (MIL), and will continue to remain strategically important to the GoI.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key strengths

High strategic importance to the GoI and a major supplier to other DPSUs

YIL is wholly owned by the GoI. The Cabinet Committee on Security (CCS), in its meeting held on July 29, 2020, approved to convert Ordnance Factory Board (OFB), an attached office of the Ministry of Defence (MoD), into more than one 100% government-owned corporate entities registered under the Companies Act 2013. The cabinet meeting held on June 16, 2021, approved to convert 41 production units of OFB into seven DPSUs. YIL is one of such seven DPSUs. Accordingly, eight production units of erstwhile OFB, pertaining to the production of ammunition shells, were transferred to YIL on October 1, 2021.

Accredited manufacturing units with established client and product base

YIL is engaged in the production of ammunition shells for tanks guns, mortars, rockets, air dropping bombs, and cartridge case. It has eight manufacturing units that are located across India, in the states of Maharashtra, Uttar Pradesh, West Bengal, and Madhya Pradesh. The company has established products in relation to defence and its customers are primarily other DPSUs, in particular, MIL, which contributed to about 66% of its total revenue in FY23. The other DPSUs include Armoured Vehicles Nigam Limited (AVNL) and Advanced Weapons and Equipment India Limited (AWEIL). CARE Ratings expects, in FY24 also, MIL will continue to be the largest customer for YIL.

Significant support from the GoI

YIL, being a DPSU and owned entirely by the GoI, has significant support and involvement from the government. The company is the preferred supplier to other DPSUs. During FY23, the GoI infused about ₹526 crore in the company for capex and for meeting other liabilities. The company plans to incur capex to the tune of about ₹700 crore in the medium term, the funding of which will be provided by the GoI. Furthermore, upon corporatisation of the erstwhile OFB, the employees of OFB have been transferred to the company on deemed deputation for an initial period of two years. The employees continue to be the employees of the GoI and their gratuity as well as pension liabilities continue to be the obligation of the Central Government. CARE Ratings expects that being a strategically important company, YIL will continue to receive support from the government.

Moderate order book position, albeit recurring nature of orders

The company's unexecuted order book as on March 31, 2023, stood at ₹4,000 crore. The order book stands at around 1.67x of the FY23 operating income. Primarily, the order book is from other DPSUs like MIL, AWEIL, and AVNL. Apart from orders from other DPSUs, YIL also has export orders and orders from the Indian Railways and Indian Air Force. Although the order book position of the company stands moderate, however, being the primary supplier to MIL, YIL receives yearly orders from MIL based on the supply schedule to the Army, Navy, and Air Force. YIL also receives advance up to 60% from MIL for its supply. Additionally, the government's focus on rolling out reforms to increase India's defence product manufacturing capability and gradually reduce imports will support the order inflow in the medium-to-long term. CARE Ratings Limited (CARE Ratings) expects that in the coming years, these new DPSUs will explore and establish newer markets both, in the country and abroad, and become self-sustainable. With the support from the Ministry of External Affairs (MoEA), the company can explore new overseas markets for its products, through its diplomatic channels.

Professional management, functional and financial autonomy to improve profitability

With professional management, functional and financial autonomy and more accountable. The restructuring will help in making these OFBs more productive and profitable assets, enhance competitiveness, and improve efficiency, besides also aiding in exploring newer markets both, in the country as well as abroad. The newly created DPSUs have the potential to earn profits from their supplies to services, other government organisations, civil trade, and exports through participation in competitive bidding.

Comfortable financial risk profile

The capital structure of the company is comfortable. It does not have any term loans or working capital loans outstanding as on March 31, 2023. YIL does not have any plans to avail any term debt for its capex, as the same will be funded by the GoI. Going forward, in future as well, CARE Ratings expects the company's overall financial risk profile to remain comfortable.

Highly capital-intensive operations with entry barriers

The operations of the company are capital-intensive, requiring extensive capital investment for the procurement, replacement, and renewal of plant and machinery (P&M), civil works, and research and development (R&D). As on March 31, 2023, the value of fixed assets in the books of YIL stood at about ₹2,000 crore, which includes ₹1,221 crore of P&M and ₹214 crore of capital work in progress. Furthermore, the company has plans to incur capex to the tune of ₹700 crore for the expansion and modernisation of its P&M over a period of two years. Apart from the highly capital-intensive operations, the sector has high entry barriers.

Operating in the defence industry involves strict compliance with stringent rules and regulations imposed by the government. The sector being of national importance requires any new entrants to have established track record and relevant experience along with financial and technological competence. Furthermore, the sector requires maintaining a high degree of confidentiality both, about the process and the supplies to be made.

Key weaknesses

Fixed-price contracts limiting profitability, albeit the presence of a price escalation clause

YIL, being an arm of the government, has limitations in terms of profit margins. Earlier, the supplies made by OFB did not carry any profit element. The prices for the supplies were fixed based on estimated cost without any profit mark-up. Post corporatisation, there is a price escalation clause, which allows YIL to increase the price by 6% every year for the supplies made to other DPSUs. Furthermore, in export orders, the company has the flexibility for applying mark up and the same can be done seeing the market position. YIL currently has export orders to the tune of about ₹1,100 crore, which is to be executed over a period of two years. Thus, basis the above facts, CARE Ratings expects the profitability of the company to improve by 100-150 basis points in FY24.

Customer concentration risk with high dependence on the defence sector for orders

The other DPSUs are YIL's primary customers. The DPSUs like MIL, AWEIL, and AVNL receive orders from the Army, Navy, and Air Force, who in turn, place orders with YIL for the supply of raw materials. MIL is a major customer for YIL and accounted for around 66% of the turnover during FY23. Any deterioration in the orders from defence forces to MIL and other DPSUs due to changes in the procurement policy or a significant cutback in defence spending will adversely impact the company's revenue and order book position. Furthermore, currently, there is no memorandum of understanding (MoU) that YIL has with MIL or other DPSUs for the supply of raw materials. As such, MIL is free to procure raw materials from the open market. However, CARE Ratings expects that given the size of operations of YIL and the wide range of products it manufactures, it will be difficult for any other supplier to replace YIL. Furthermore, the defence raw material requires conforming to stringent quality norms and specifications and complying to such requirements acts as entry barriers.

Working capital-intensive nature of the business

The company operates in a working capital-intensive industry. The high working capital requirement primarily is due to the high inventory cost. The inventory holding period as on March 31, 2023, stood at about 115 days. The high inventory is mainly due to the wide variety of products that the company manufactures. Furthermore, the receivable days also remained at about 63 days. YIL receives 60% advance from its supply to other DPSUs like MIL for their supply made to the Indian Army, and for the export orders served by MIL, 15% advance is given to YIL while the balance is received within a period of about two months.

Qualified audit report

In the audit report for FY23, the statutory auditor of YIL has given a qualified opinion with respect to inter-branch transactions and the non-reconciliation of their balances, mismatches in the opening balance of reserve and surplus due to certain adjustments, lack of physical verification of inventory and property P&E in some branches, the addition of fixed assets without incurring any expenditure towards the same. Furthermore, the auditor has also pointed out non-compliance of the provisions of the Income Tax act with respect to deduction of TDS, GST payable of the prior period, and non-reconciliation of GST credit reported in the books and electronic ledger. This apart, some other key audit matters have been emphasised by the statutory auditor.

Upon discussion with the management of the company, CARE Ratings notes that some of the above-mentioned qualifications have subsequently been addressed by the company. Furthermore, YIL is gradually taking steps to strengthen its overall internal financial control. Furthermore, the Comptroller and Auditor General (CAG) Audit for FY23 is under process and the qualifications made by the statutory auditor have been submitted for CAG audit. CARE Ratings will continue to monitor any material adverse outcome arising from these observations, impacting the financials of the company.

Liquidity: Strong

The liquidity profile of the company is healthy, supported by cash and liquid investments of about ₹1,645 crore as on March 31, 2023, against nil debt repayments. YIL plans to undertake capex to the tune of about ₹700 crore over a period of two years, for which funds will be made available by the GoI; hence, the company does not plan to avail any term debt. Furthermore, YIL also receives advance for the order it executes. The average working capital utilisation for the 12-month period ended on June 30, 2023, remained at around 2%, which further provides cushion to the liquidity of the company.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Policy on default recognition
Factoring Linkages Government Support
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies
Short Term Instruments
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Diversified	Diversified	Diversified	Diversified

Incorporated in August 2021, YIL is a central public sector enterprise (CPSE) under the MoD, GoI. YIL is one of the seven DPSUs carved out of the erstwhile OFB. The company is fully owned by the GoI. It is engaged in the production, testing, logistics, R&D, and marketing of a comprehensive range of ammunition hardware, assault bridges, and air drop platform, gun integration and ammunition packing solutions. The company is based out of Nagpur and has eight manufacturing units located across West Bengal, Uttar Pradesh, Madhya Pradesh, and Maharashtra.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	998.34	2,391.01
PBILDT	-104.02	7.04
PAT	-123.18	42.40
Overall gearing (times)	0.00	0.00
Interest coverage (times)	0.00	19.03

A: Audited. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	950.00	CARE AA; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	50.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash Credit	LT	950.00	CARE AA; Stable				
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	50.00	CARE AA; Stable / CARE A1+				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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