Yantra India Limited

October 07, 2024

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

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Yantra India Limited (YIL) derives strength from its strategic importance to the Government of India (GoI), its established market position in defence sector and significant improvement in overall operating performance in FY24. Ratings are also underpinned by steady order inflows, large manufacturing capacities with adequate pool of trained manpower, high entry barrier within the industry limiting competition, comfortable capital structure, and minimal reliance on debt. These strengths are partially offset by high dependence on the defence sector, which contributes to bulk of its revenues and its working capital-intensive operations due to high inventory. Operating profit margins remain vulnerable to input cost fluctuations in its fixed price defence contracts despite being mitigated to a certain extent with a price escalation clause.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly improving in the operating performance on a sustained basis, leading to the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin sustaining beyond 10%.
- Gross current asset days sustaining under 130 days.

Negative factors

- Diluting of GoI to below 51%.
- Changes in stance of GoI support to YIL, reflecting in lower order inflows and revenues.
- Significantly declining cash and liquid balances.
- Large debt-funded capex or sizeable working capital requirements, weakening capital structure beyond 0.5x.

Analytical approach

Standalone, 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 raw material supplier to the defence public sector undertaking (DPSU)--Munitions India Limited (MIL) and will continue to remain strategically important to GoI.

Detailed description of key rating drivers:

Key strengths

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

YIL is wholly owned by GoI. In its meeting on July 29, 2020, the Cabinet Committee on Security (CCS) 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 on June 16, 2021, approved to convert 41 production units of OFB into seven DPSUs. YIL is one of the seven DPSUs. Eight production units of erstwhile OFB, producing ammunition shells were transferred to YIL on October 01, 2021.

Accredited manufacturing units with established client and product base

YIL is engaged in producing ammunition shells for tanks guns, mortars, rockets, air dropping bombs, and cartridge case. It has eight manufacturing units across India, in Maharashtra, Uttar Pradesh, West Bengal, and Madhya Pradesh. The company has

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

established products in relation to defence and its customers are primarily other DPSUs, particularly MIL, which contributed to ~60% of its total revenue in FY24. Other DPSUs include Armoured Vehicles Nigam Limited (AVNL) and Advanced Weapons and Equipment India Limited (AWEIL). In FY25, CARE Ratings expects MIL to continue being YIL's largest customer.

Significant support from GoI

Being a DPSU and owned entirely by GoI, YIL has significant support and involvement from the government. The company is the preferred supplier to other DPSUs. In FY24, GoI infused ~₹200 crore in the company for capex and meeting other liabilities. The government provides capex funding. The company plans to incur capex worth ~₹600 crore in the medium term, funded by GoI. On corporatisation of the erstwhile OFB, its employees have been transferred to the company on deemed deputation for an initial two years, later extended by another year (till September 2024). This period has been further extended till December 2025. Employees continue to be GoI employees and their pay allowances, leave, medical facilities and pension liability 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 despite recurring orders

The company's unexecuted order book in September 2024 stood at ~₹2800 crore, including export orders worth ₹1200 crore. Unlike other DPSUs where the order book is served over 3-4 years, YIL receives domestic orders monthly /quarterly. To run these DPSU's, indents placed up to September 30, 2021, on erstwhile OFB have been converted into deemed contracts (only order of DPSUs), and every year, 60% of these contracts for supply of respective products for that year's target is being paid by the DPSUs as advance per terms and conditions stipulated in the deemed contract, which are interest free. The government's focus on rolling out reforms to increase India's defence product manufacturing capability and gradually reduce imports will support order inflow in the medium-to-long term. In the coming years, these new DPSU are expected to explore and establish newer markets in the country and abroad, becoming self-sustainable. With the support from Ministry of External Affairs, the company can explore new markets overseas for products through their 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 making these OFBs more productive and profitable assets, enhance competitiveness, and improve efficiency, apart from aiding in exploring newer markets in the country and 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.

Improved overall performance

The company's performance in FY24 improved in terms of revenue and operating margins. The revenue has grown by ~18% to ₹2822 crore from ₹2391 crore reported in FY23. With revenue the PBILDT margins also improved to 11.88% from 0.29% reported in FY23. Significant improvement in margins was due to improved scale of operations leading to benefits of operating leverage, which was further supported by first time exports and higher margins.

Comfortable financial risk profile

The company's capital structure is comfortable. It does not have term loan outstanding as on March 31, 2024, though working capital loan to the tune of ₹36.41 crore remained outstanding as on March 31, 2024. The company does not have plans to avail term debts for its capex, which will be funded by GoI. Going forward, CARE Ratings expects the company's overall financial risk profile to remain comfortable.

Capital intensive operations with entry barriers

The company's operations are capital intensive requiring extensive capital investment for procurement, replacement and renewal of plant and machinery (P&M), civil works and research and development (R&D). As on March 31, 2024, value of fixed assets in YIL's books stood at ~₹2055 crore, which includes ₹1893 crore of P&M and ₹162 crore of capital work in progress (CWIP). The company plans to incur capex to the tune of ₹600 crore for expansion and modernisation of its P&M over two years. Apart from highly capital-intensive operations the sector has high entry barriers. Operating in defence industry involves strict compliance with stringent rules and regulations imposed by the government. The sector being of national importance, requires new entrants to have established track record and relevant experience and financial and technological competence. The sector requires maintaining high degree of confidentiality about process and supplies to be made.

Key weaknesses

Fixed price contracts limiting profitability despite price escalation clause

Being an arm of government, YIL has limitations in terms of profit margin. Earlier, supplies made by OFB did not carry a profit element. The price for supplies were fixed based on estimated cost without a profit mark up. Post corporatisation, there is a price escalation clause, which allows YIL to increase the price by 6% every year for supplies made to other DPSUs. In the export orders, there is no cap for applying markup, which can be done seeing the market position. The company earns ~12% PBILDT margin in export orders. The company currently has export orders to the tune of ~₹1200 crore, which is to be executed over three years.

Customer concentration risk due to dependence on defence sector, partially mitigated by rising exports
The other DPSU's are YIL's primary customer. DPSUs such as MIL and AVNL receive order from army, navy and air force, who orders with YIL for raw material. MIL is YIL's major customer, which accounted for ~60% (PY: 66%) of the turnover in FY24. Deterioration in orders from defence forces to MIL and other DPSUs due to changes in procurement policy or a significant cutback in defence spending, the company's revenue and order book position can be adversely impacted. Due to the high concentration of government sector orders, revenue booking and cash flows are vulnerable to delays in project execution or final payment clearance in some cases. It has significant exposure to Ministry of Defence under GoI, which relies on budgetary means to clear its dues. In FY24, the company exported goods worth ₹219 crore (~8% of TOI), which diversified its client base and reduce customer concentration.

Working capital intensive business
The company operates in a working capital intensive industry. The high working capital requirement primarily is due to high inventory cost. The inventory holding period in FY24 stood at ~105 days. The high inventory is mainly due to wide product varieties, which company manufactures. Receivable days increased from 63 days in FY23 to 98 days in FY24. YIL receives 60% advance from its supply to other DPSUs such as MIL for their supply made to Indian Army and for the export order served by MIL, 15% advance is given to YIL, the balance is received within about three months.

Qualified audit report
In the audit report for FY24, YIL's statutory auditor has given a qualified opinion with respect to inter-branch transactions and non-reconciliation of their balances, mismatches in opening balance of reserve and surplus due to certain adjustments, lack of physical verification of inventory and property P&E in some branches, and committed liability payable related to prior period among others. The auditor has also pointed out non-compliance of 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. Other key audit matters have been emphasised by the statutory auditor.

On discussion with the company's management, CARE Ratings notes that some of these qualifications have subsequently been addressed. YIL is gradually taking steps to strengthen its overall internal financial control. The company's books are subject to the Comptroller and Auditor General (CAG) Audit. The CAG audit report for FY23 and FY24 does not point to observations stated by statutory auditors.

Liquidity: Strong
The company's liquidity profile is healthy supported by cash and liquid investments of ~₹1200 crore as on March 31, 2024, against nil term debt repayments. The company plans to undertake capex to the tune of ~₹600 crore in the medium term, for which, funds will be made available by GoI. Hence, the company does not plan to avail term debt. The company also receives advance for orders it executes. Average working capital utilisation for 12-month ending in August 2024, remained at ~8%, which provides cushion to the company's liquidity.

Assumptions/Covenants: Not applicable

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

Applicable criteria

Definition of Default
Factoring Linkages Government Support
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies

[Financial Ratios – Non financial Sector](#)
[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Aerospace & defense	Aerospace & defense

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

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	2,391.01	2,822.14
PBILDT	7.04	335.19
PAT	42.40	425.56
Overall gearing (times)	0.00	0.01
Interest coverage (times)	19.03	64.34

A: Audited,; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and 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 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	950.00	CARE AA; Stable	-	1)CARE AA; Stable (09-Nov-23)	-	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	50.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (09-Nov-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 912267543444 E-mail: Ankur.sachdeva@careedge.in	**Ranjan Sharma** Senior Director **CARE Ratings Limited** Phone: +91-79-4026-5617 E-mail: ranjan.sharma@careedge.in Pulkit Agarwal Director **CARE Ratings Limited** Phone: +91-22-6754-3505 E-mail: pulkit.agarwal@careedge.in Naveen Kumar Dhondy Associate Director **CARE Ratings Limited** Phone: +91-40-4010-2030 E-mail: dnaveen.kumar@careedge.in

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.

For detailed Rationale Report and subscription information,
please visit www.careedge.in