Cerebra Integrated Technologies Limited

December 01, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Previous Ratings	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facility	18.99	IVR BBB-/Credit Watch with Developing Implications (IVR Triple B Minus under credit watch with developing implications)	IVR BB+/ Stable Outlook (IVR Double B Plus with Stable Outlook)	Downgraded and Outlook Assigned; Removed from Credit Watch with Developing Implications	Simple
Short Term Bank Facility	10.00	IVR A3/ Credit Watch with Developing Implications (IVR A Three with Credit Watch with Developing Implications)	IVR A4+ (IVR A Four Plus)	Downgraded and Outlook Assigned; Removed from Credit Watch with Developing Implications	Simple
Long Term /Short Term Bank Facility	21.01*	IVR BBB-/ A3/ Credit Watch with Developing Implications (IVR Triple B Minus/ A Three with Credit Watch with Developing Implications)	IVR BB+/Stable / IVR A4+ (IVR Double B Plus with Stable outlook/ IVR A Four Plus)	Downgraded and Outlook Assigned; Removed from Credit Watch with Developing Implications	Simple
Total	**50.00**	**Rupees Fifty Crore Only**			

**The facility is proposed in nature.*

Details of Facilities are in Annexure 1

Detailed Rationale

Informerics Valuation and Rating Private Limited (IVR) has downgraded long-term rating to IVR BB+ with Stable Outlook and short-term rating of IVR A4+ for the bank loan facilities of Cerebra Integrated Technologies Limited (CITL).

The rating has been removed from credit watch and downgraded due to deterioration in financial performance of the company in H1FY2023 as compared to H1FY2022.

The rating draws comfort from the established track record of operations and experienced management, diversified customer base, satisfactory gearing, and tangible net worth. However, these strengths are partially offset by deterioration in financial performance in H1FY2023, volatility in margins and operating income and working capital intensive nature of operations.

IVR has principally relied on the standalone audited financial results of CITL upto 31 March 2022, H1FY23 provisional results and projected financials for FY23, FY24 and FY25 and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations and profitability margins
- Improvement in debt protection metrics
- Significant improvement in working capital cycle.

Downward Factors

- Any further significant rise in working capital intensity leading to a deterioration in the liquidity position.
- Significant reduction in the scale of operations and profitability margins
- Deterioration in debt protection metrics and overall gearing

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record of operations and experienced management:**
  The company commenced its operations in 1992 and has a successful track record of around two decades in the existing line of business. Overall activities of CITL are managed by 9 directors as well as supported by qualified and well experienced management team.

- **Diversified customer base:**
  With presence of around two decades, CITL has established a healthy relationship with its customers and suppliers. The company caters to several government entities. Also, it caters to well established players such as Samsung India Electronics Limited and LG Electronics in the e-waste division. The company has built a strong track record which has enabled the company in bagging repeat orders from its clients.

- **Satisfactory gearing and tangible net worth:**
  Overall gearing stood satisfactory at 0.12x FY22 as against 0.08x in FY21. In H1FY23 overall gearing stood at 0.13x. The tangible net worth improved to Rs. 262.03 crore in FY22 from Rs. 234.48 crore in FY21. In H1FY23 tangible net worth stood at Rs. 265.84 crore.

B. Key Rating Weaknesses

- **Deterioration in financial performance in H1FY23:**
  The total operating income (TOI) declined by ~28.81% to Rs. 59.86 crore in H1FY23 from Rs. 84.08 crore in H1FY22. The company's operating profit margins and net profit margins declined to 15.15% and 5.63% respectively in H1FY23 as compared to 22.57% and 16.02% respectively in H1FY22, due to decrease in overall operating income. In terms of the debt coverage indicators, the interest service coverage ratio (ISCR) declined to 1.78x in H1FY23 as compared to 7.16x in H1FY22.

- **Volatility in margins and operating income:**
  About 95% of the industry is handled by unorganized players, which operate without any license and use unscientific methods to treat e-waste. Hence the business performance is susceptible to the intense competition in the industry. The revenues were in the range of Rs. 60-270 crores in the past three fiscals, while also witnessing large variations in the operating margins. The total operating income (TOI) declined by ~28.81% to Rs. 59.86 crore in H1FY23 from Rs. 84.08 crore in H1FY22.

- **Working capital intensive nature operations:**
  The company has large working capital requirements which are reflected in an elongated conversion cycle 148 days in FY23 (FY21: 377 days). The average utilization of fund based working capital limits of the company stood high at ~83% during last 12 months ending 31st January 2022.

Analytical Approach: For arriving at the ratings, IVR has analyses CITL's credit profile by considering the standalone financial statements of the company.

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-Financial Sector)
Criteria of assigning Rating Outlook

Liquidity – Adequate

The company has an adequate liquidity position. There are long-term secured borrowings from banks, amounting to Rs. 8.65 crore, as on March 31, 2022. Against a current portion of long-term debt (CPLTD) of Rs 0.05 crore, the company had a gross cash accrual of Rs. 27.99 crore in FY22. The company projected to generate cash accruals of Rs. 30.14 crore in FY23 against a CPLTD of Rs. 0.55 crore. With the adequate expected cash accruals against repayments, the liquidity position will remain adequate.

About the company

Cerebra Integrated Technologies Limited, was initially established as partnership firm in 1992 and started its operation as manufacturing of computer systems and trading of its peripherals, components, etc. In 1993 it was converted to public limited company. CITL is currently engaged in the business of e-waste recycling, refining and refurbishment, electronic manufacturing services and IT infrastructure management. The company is listed on National Stock Exchange (NSE) and Bombay Stock Exchange (BSE).

Financials (Standalone):

Rs in crore

For the year ended as on	31-03-2021	31-03-2022	H1FY23
	Audited	Audited	Unaudited
Total Operating Income	63.90	231.08	59.86
EBITDA	11.46	41.87	9.07
PAT	4.52	27.43	3.37
Total Debt	11.71	32.51	34.86
Tangible Net worth	234.48	262.03	265.84
EBITDA Margin (%)	17.94	18.12	15.15
PAT Margin (%)	7.06	11.63	5.63
Overall Gearing Ratio (x)	0.05	0.12	0.13

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

(Rs. Crore)

Sr. No.	Name of Instrument /Facilities	Current Ratings (Year 2022-23)				Rating History for the past 3 years		
		Tenure	Amount	Rating (Dec 01, 2022)	Rating (April 05, 2022)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Fund based	Long Term	18.99	IVR BB+/ Stable	IVR BBB-/ Credit Watch with Developing Implications	-	-	-
2.	Fund based	Short Term	10.00	IVR A4+	IVR A3/ Credit Watch with Developing Implications	-	-	-
3.	Fund Based/Non Fund Based	Long/Short Term	21.01*	IVR BB+/ Stable/ IVR A4+	IVR BBB-/ IVR A3/ Credit Watch with Developing Implications	-	-	-

**The facility is proposed in nature.*

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	-	2.99	IVR BB+/ Stable
Cash Credit				11.00	IVR BB+/ Stable
Bank Guarantee	-	-	-	3.00	IVR A4+
Letter of credit	-	-	-	2.00	IVR A4+
Overdraft#	-	-	-	10.00	IVR A4+
Proposed Facility*	-	-	-	21.01*	IVR BB+/ Stable/ IVR A4+

**The facility is proposed in nature.*

#The facility tenure is six months only.

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details (Len-Cerebra-Integrated-dec22.pdf (infomerics.com)

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at Complexity Level of Rated Instruments/Facilities.