

Alfa Transformers Limited

April 01, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	3.35 (Reduced from 7.72)	CARE B-; Stable (Single B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	10.96 (Reduced from 11.80)	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	14.31 (Rs. Fourteen Crore and Thirty-One Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Alfa Transformers Limited (ATL) are constrained by its weak financial risk profile in FY21 (refers to the period April 01 to March 31) and 9MFY22, exposure to volatility in raw materials, competitive nature of industry coupled with business risk associated with tender-based orders and low order book position of the company. The ratings, however, derive strength from its experienced management with long track record of operations and reputed clientele.

Key Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade

- Turnaround in operation with execution of orders.

Negative Factors - Factors that could lead to negative rating action/downgrade

- Weakening of liquidity position due to continued losses.

Detailed description of the key rating drivers

Key Rating Weaknesses

Weak financial risk profile in FY21 and 9MFY22

The total operating income (TOI) of the company has witnessed a de-growth of 40.21% to Rs.19.83 crore in FY21 as compared to Rs.32.85 crore in FY20 on account of lower order executed. Consequently, the company continued to incur operating loss in FY21 mainly on account of higher operational expenses and lower margin orders execution. The Company also incurred significant penalty due to delayed execution in view of operational issues in one of the plants at Vadodara as this unit was closed since March, 2021 due to non-availability of adequate manpower and raw materials attributable to covid19 induced restrictions. Nonetheless, the same has started operation recently.

Moreover, in 9MFY22 (as per unaudited results), TOI declined to Rs.6.54 crore from Rs.13.18 crore in 9MFY21. Operating and cash losses continued in 9MFY22.

The capital structure of ATL also moderated in FY21 over FY20 due to decline in net-worth of the company as the company incurred cash losses during the said period. Consequently, the overall gearing of the company declined to 1.47x as on March 31, 2021 from 0.43x as on March 31, 2020.

Exposure to volatility in raw material prices

The company is engaged in manufacturing of electrical equipment like power transformers. The major raw materials required for the same are copper, aluminium, cold rolled grain-oriented insulation materials resistance materials and other steel materials.

Competitive nature of industry coupled with business risk associated with tender-based orders

ATL faces direct competition from various organized and unorganized players in the market. The company majorly undertakes contracts from government departments and corporates, which are awarded through the tender-based system. This exposes the company towards risk associated with the tender-based business, which is characterized by intense competition. Moreover, any changes in the government policy or their spending on projects are likely to affect the revenues of the company.

Low order book position of the company

Alfa Transformers Limited has low order book position of Rs.3 crore at Bhuvneshwar plant. This apart, the company has participated in a tender of Rs.25 crore for Gujarat Discom. The offer has been technically approved and price part of the tender is already open. However, ATL is yet to receive the Letter of Intent (LOI).

Key Rating Strengths

Experienced management with long track record of operations

ATL is engaged in manufacturing of small distribution transformers and offers related technical assistance and services, including repair work since 1982 and thus having more than three decades of track record of operations during which it has

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

acquired technologies to manufacture specialised transformers such as furnace, stabilised output, single-phase, and amorphous metal alloy transformers.

Reputed clientele

Over the years, ATL has established a good relationship with its customers and has reputed clientele portfolio from public and private sector.

Liquidity analysis: Poor

Poor liquidity position is marked by cash losses incurred in FY21 and 9MFY22 as well. The debt repayment obligation met by utilization of working capital limits. Cash & cash equivalent stood low at Rs.3.01 crore (incl. FDs with banks) as on Sep 30, 2021. The average utilization of working capital limit remained near full utilization during last 12 months ended Feb 28, 2022. Going forward, liquidity position of the company is expected to remain poor in next two to three quarter as the company is expected to incur cash losses during the said period. Nevertheless, debt repayment obligations of Rs.0.38 crore in FY22 would be met out of working capital/fund infusion from promoters.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non-financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the Company

Odisha based ATL, incorporated in 1982, was promoted by Mr. D. K. Das with its registered office located at Mancheswar Industrial Estate, Bhubaneswar. Since its inception, the company manufactures small distribution transformers and offers related technical assistance and services, including repair work. The company executes EPC orders (for electrical installations) on behalf of various public sector entities like Odisha Power Transportation Company Limited and Paschim Gujrat Vij Company Limited and Gupta Power Infrastructure Limited. The company has two manufacturing units located at Bhubaneswar and Vadodara.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (Prov.)
Total operating income	33.31	19.79	13.18
PBILDT	-4.94	-5.84	-2.51
PAT	-7.63	-11.79	-4.27
Overall gearing (times)	0.43	1.47	NA
Interest coverage (times)	NM	NM	NM

A: Audited, NM: Not Meaningful; Prov.: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: NA

Rating History for last three years: Please refer Annexure-2

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

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	3.34	CARE B-; Stable
Fund-based - LT-Term Loan	-	-	-	*	0.01	CARE B-; Stable
Non-fund-based - ST-Bank Guarantee	-	-	-	-	7.96	CARE A4
Non-fund-based - ST-Letter of credit	-	-	-	-	3.00	CARE A4

*Already repaid. However, No Dues Certificate is to be received.

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	3.34	CARE B-; Stable	1)CARE B-; Stable (09-Jul-21)	1)CARE B; Stable (22-Mar-21) 2)CARE B; Stable (08-Jul-20)	1)CARE B+; Stable (17-Oct-19)	-
2	Fund-based - LT-Term Loan	LT	0.01	CARE B-; Stable	1)CARE B-; Stable (09-Jul-21)	1)CARE B; Stable (22-Mar-21) 2)CARE B; Stable (08-Jul-20)	1)CARE B+; Stable (17-Oct-19)	-
3	Non-fund-based - ST-Bank Guarantee	ST	7.96	CARE A4	1)CARE A4 (09-Jul-21)	1)CARE A4 (22-Mar-21) 2)CARE A4 (08-Jul-20)	1)CARE A4 (17-Oct-19)	-
4	Non-fund-based - ST-Letter of credit	ST	3.00	CARE A4	1)CARE A4 (09-Jul-21)	1)CARE A4 (22-Mar-21) 2)CARE A4 (08-Jul-20)	1)CARE A4 (17-Oct-19)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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

Media Contact

Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Richa Bagaria
Contact no.: 9903470650
Email ID: richa.jain@careedge.in

Relationship Contact

Name: Lalit Sikaria
Contact no.: + 91-033- 40181600
Email ID: lalit.sikaria@careedge.in

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