Voltamp Transformers Limited

September 01, 2021

Ratings

Bank Facilities	Amount (Rs. crore)	Ratings [1]	Rating Action
Long-term Bank Facilities	10.00	**CARE AA; Stable [Double A; Outlook: Stable]**	**Reaffirmed**
Long-term/Short-term Bank Facilities	282.50	**CARE AA; Stable / CARE A1+ [Double A; Outlook: Stable / A One Plus]**	**Reaffirmed**
Total Facilities	**292.50 (Rs. Two hundred ninety-two crore and fifty lakh only)**		

Details of facilities in ***Annexure-1***

Detailed Rationale and Key Rating Drivers

The ratings assigned to the bank facilities of Voltamp Transformers Limited (VTL) continue to derive strength from its established track record of operations in transformer business with focus on diversified clientele with good credit quality which has led to good control over its receivables on a sustained basis. The conservative policy of VTL's management on debt-fuelled growth coupled with its sustained positive cash flow from operations has resulted in its comfortable capital structure and debt coverage indicators along with strong liquidity. CARE Ratings expects VTL's financial risk profile to remain comfortable in the medium -term.

The long-term rating, however, continues to remain constrained on account of VTL's moderate scale of operations despite improvement in its order book, its high reliance on non-fund-based working capital limits and susceptibility of its profitability to volatile raw material prices and competitive pressure which are expected to result in some moderation in its operating profitability (PBILDT) during FY22 (refers to the period April 1 to March 31).

Rating Sensitivities

Positive Factors (Factors that could lead to positive rating action / upgrade)

- *Increase in its total operating income (TOI) to more than Rs.2,000 crore along with diversification in product profile*
- *Improvement in return on capital employed (ROCE) to above 20% on a sustained basis along with sustenance of its comfortable capital structure and strong liquidity*

Negative Factors (Factors that could lead to negative rating action / downgrade)

- *Sustained decline in its TOI to below Rs.700 crore*
- *Significant depletion of its liquidity with unencumbered liquid investments falling below Rs.300 crore or significant elongation in its gross working capital cycle with sustained negative cash flow from operations*
- *Deterioration in its overall gearing to beyond 0.50x on a sustained basis*

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management with long track record of operations in transformer industry

Late Mr Lalit Kumar Patel, principal promoter of VTL, was a technocrat having over four decades of experience in the transformer industry. The company is currently being managed by the second generation of the promoter family, along with a team of professionals.

Mr Kunjal L. Patel, Vice Chairman of VTL, is the son of Late Mr Lalit Kumar Patel and holds a bachelor's degree in Electrical Engineering. He has over two decades of experience in production and marketing of transformers and looks after the overall operations of the company including purchase and planning, manufacturing, quality control and design aspects. Mr Kanubhai S. Patel, Chairman & Managing Director of the company, is a Chartered Accountant by profession. He looks after the general management, new business sourcing and overall strategy building for VTL.

During past few years, when the transformer industry witnessed a challenging phase with subdued order inflow and aggressive bidding by industry players which adversely impacted their profitability and resulted in elongation of receivables, VTL was able to successfully navigate through this phase on account of its selective order bidding and focus on cash flows, instead of aggressive debt-funded growth.

Focus on diversified clientele with good credit quality resulting in healthy cash flow from operations

VTL has a diversified clientele with more than 1,000 customers across various end-use industries such as power, oil refineries, textile, chemical, real estate, automobile, infrastructure and steel spread across the country. Over the years, VTL has established long-standing relationship with reputed players in these industries which have facilitated it in securing repeat orders from its clients. Furthermore, over 95% of VTL's sales in last three years have been to private sector players having good credit profile, thereby resulting in very limited exposure to State Government power sector undertakings wherein inherently the receivables are elongated. VTL's top ten customers comprised around 58% of its total sales during FY21 (FY20: 26% of the total sales). VTL's focus on private sector players with good credit profile along with diversified clientele has held it in good stead over the years by way of relatively steady profitability and healthy generation of cash flows through timely realisation of receivables.

Good revenue visibility with improvement in its order book post the moderation in its TOI during FY21
VTL's selective order booking with focus on cash flows has resulted in its moderate scale of operations over the years; albeit with relatively stable profitability and build-up of significant unencumbered liquid investments which has been maintained in the company.
During FY21, VTL's TOI declined by 20% on a y-o-y basis to Rs.706 crore due to around 15% y-o-y decline in its sales volume primarily on the back of its subdued performance in H1FY21 owing to the nation-wide lockdown during the first wave of Covid-19 pandemic.
Despite the sharp decline in its TOI, its PBILDT margin remained relatively stable at 12.95% vis-à-vis 14.63% during FY20 aided by few cost rationalization measures undertaken by the company. While VTL's operating ROCE remained healthy at over 26% during FY21, its total ROCE was restricted to 13% due to moderate return of around 6%-8% p.a. on its sizeable investment portfolio which formed a good part of the company's overall capital employed.
However, with relatively lesser disruption arising from second wave of Covid-19, VTL's TOI jumped significantly by 86% on a y-o-y basis to Rs.175 crore in Q1FY22; albeit on a low base. Furthermore, the improvement in its order book to Rs.772 crore as on August 14, 2021 (vis-à-vis Rs.471 crore on June 8, 2020) provides good near-term revenue visibility. CARE Ratings expects VTL's sales to grow by around 12%-14% during FY22 on a y-o-y basis.

Comfortable capital structure and healthy debt coverage indicators
VTL's capital structure continued to remain comfortable marked by a strong net worth base of Rs.833 crore as on March 31, 2021, against no outstanding fund-based debt (except for interest free mobilization advances). Its overall gearing was very comfortable at 0.04x as on March 31, 2021 (P.Y.: 0.04x). Its debt coverage indicators, viz., PBILDT interest coverage, Total Debt/GCA and Total Debt/PBILDT, also continued to remain highly comfortable on the back of its low debt profile, healthy cash flows and steady profitability. On the back of its envisaged healthy cash flow generation and the management's conservative stance on availing debt, CARE Ratings expects VTL's leverage and debt coverage to continue to remain very comfortable in the medium term.

Liquidity: Strong
Liquidity of VTL continues to remain strong marked by nil term debt repayment obligations, nil utilization of fund-based working capital limits along with presence of healthy and growing unencumbered liquid investments which stood at around Rs.502 crore as on June 30, 2021. Almost 61% of this liquidity was invested in mutual funds as on March 31, 2021. The company mainly utilizes non-fund-based limits in the form of bank guarantees in its normal course of business, the average utilization of which (including long-term performance guarantees) remained moderate at around 68% during the trailing twelve months ended May 2021. VTL's liquidity is further underpinned by its healthy current ratio of over 5x as on March 31, 2021.
Furthermore, with a comfortable capital structure, VTL has sufficient gearing headroom to raise additional debt for its capex/working capital needs. Also, its entirely unutilized fund-based working capital bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Key Rating Weaknesses
Moderate scale of operations
VTL's scale of operations is expected to remain at a moderate level for the foreseeable future compared to the size of the transformer industry and the larger capital goods industry. Significant increase in its TOI along with diversification of its product profile while generating healthy cash flow from operations and maintaining its healthy leverage and debt coverage indicators will remain a key positive rating sensitivity.

Significant increase in raw material prices and competitive pressure to result in some moderation in its operating profitability during FY22
The primary raw materials required by VTL are copper, silicon steel, cold rolled grain oriented (CRGO) steel and transformer oil. The prices of these raw materials are highly volatile in nature as they are linked to prices in global market. This exposes VTL's profitability to raw material price fluctuation risks since majority of the company's orders are fixed price in nature. Also, with global manufacturing of CRGO steel concentrated amongst fifteen major suppliers and lack of any meaningful domestic

manufacturing capacity exposes the company to price volatility arising from forex fluctuation encountered by the importers of this material, from whom the company procures it locally. The company does not have major imports or export income and has a reasonable hedging policy in place for its major raw materials (mainly copper). Average prices of its key raw materials have increased significantly between 50% to 125% in the last one year which is expected to put some pressure on the operating profitability of VTL in FY22 as there was only limited price hike undertaken by VTL in its orders due to competitive pressure.

High reliance on non-fund-based working capital limits
VTL's operations are heavily reliant on non-fund-based working capital limits since it has to extend bank guarantees (both performance and financial) to its customers; the average tenor of performance bank guarantees (PBGs) extended by it for transformers sold by it range from 3 to 6 years. However, there has not been any instance of invocation of such guarantee extended by the company over last many years. Furthermore, over the past few years, the transformer failure rates on its supplied products have been low. VTL's transformers have witnessed low defects / failures, as reflected from its low expenditure on repairs and hence restricted requirement of accumulation of funds in its provisions for warranties, the period for which usually ranges from 12 to 60 months.
The PBGs are normally extended by VTL for the defect liability period on the transformers supplied to its clients and occasionally also for release of retention money. Financial bank guarantees are required by it for availment of mobilization advances. However, large part of the guarantees issued by the company is PBGs.

Analytical approach: Standalone

Applicable criteria:
Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-financial sector
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company
Promoted by Mr Lalit Kumar Patel and his family in 1967, VTL is engaged in the manufacturing of electrical transformers. Its product portfolio comprises oil-filled power and distribution transformers up to 160 mega volt ampere (MVA), 220 kilo volt (KV) class and dry type transformers up to 12.50 MVA, 33 KV class. The products find application in varied industries including power, oil refineries, real estate, infrastructure and steel. The company's production facilities are located at Makarpura and Savli in Vadodara, Gujarat with an aggregate installed capacity of 13,000 MVA as on March 31, 2021.
The promoters of VTL had initiated an amalgamation between VTL and Kunjal Investment Private Limited (KIPL); an investment arm of VTL's promoter family which holds 42.94% shareholding in VTL. The same has been approved by the Hon'ble National Company Law Tribunal, Ahmedabad bench in August 2021. Accordingly, now equity shares of VTL held by KIPL would be issued and allotted to the shareholders of KIPL. However, the promoters' shareholding in VTL is expected to remain same even post this amalgamation. None of the promoters' shares were pledged as on June 30, 2021.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	878.65	706.17
PBILDT	128.59	91.48
PAT	89.38	112.22
Overall gearing (times)	0.04	0.04
Interest coverage (times)	177.34	151.93

A: Audited
As per the published results for Q1FY22, VTL reported TOI of Rs.175.18 crore (Q1FY21: Rs.94.47 crore) with a PAT of Rs.15.79 crore (Q1FY21: Rs.19.28 crore).
Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Complexity level of various instruments rated for this company: Please refer **Annexure-3**

Annexure-1: Details of facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	282.50	CARE AA; Stable / CARE A1+
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE AA; Stable

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.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	282.50	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (07-Jul-20)	1)CARE AA; Stable / CARE A1+ (07-Oct-19)	1)CARE AA; Stable / CARE A1+ (05-Sep-18)
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE AA; Stable	-	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable (07-Oct-19)	1)CARE AA; Stable (05-Sep-18)

Annexure-3: Complexity level of various instruments rated for this Company

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

Annexure 4: Bank Lender Details
Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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