

Transformers And Rectifiers (India) Limited

January 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE BBB; Stable / CARE A3 (Triple B; Outlook: Stable / A Three) and Withdrawn
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB; Stable (Triple B; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A3 (A Three) and Withdrawn
Total Bank Facilities	0.00 (Rs. Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB; Stable / CARE A3' [Triple B; Outlook: Stable / A Three] assigned to the bank facilities of Transformers and Rectifiers (India) Ltd (TRIL) with immediate effect. The above action has been taken at the request of TRIL and 'No Objection Certificates' received from the banks that have extended the facilities rated by CARE Ratings Ltd.

The ratings prior to its withdrawal continue to derive strength from TRIL's established position as one of the leading domestic transformer manufacturers, its strong technological tie-ups, well-established client base, stable demand outlook for transformer industry. The ratings also take cognizance its moderate scale and profitability with improvement in H1FY22 post covid-19 pandemic induced disruptions in FY21 and infusion of unsecured loan by the promoters alongwith availment of long term loan backed by personal property of promoters to support company's working capital requirement.

The ratings, however, continue to be constrained by TRIL's large working capital requirement due to elevated debtors, along with its moderately leveraged capital structure and exposure to volatile raw material prices.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of operations along with strong technological tie-ups

TRIL is one of the leading domestic transformer manufacturers with a wide range of transformers. TRIL has technological tie-up with Zaporozhtransformator (ZTR), Ukraine, for manufacturing of 765 kilo volt (KV) class transformers, with Fuji Electrical Co. Ltd (Fuji), Japan, for manufacturing of 420 KV class transformers and up to 765 KV class shunt reactors, with Jiangsu Jingke Smart Electrical Co. Ltd. for manufacturing and supply of switch gear and switch panels.

Well-established client base

TRIL has long standing relationship with various reputed clients in the power and transmission and distribution (T & D) industry. TRIL's major sales are to Central & State power utilities & PSUs which accounted for over ~50% of total sales in FY20 while balance sales being towards private players. TRIL's clientele is moderately concentrated with ~53% of total sales during FY20 being concentrated with top ten customers. However, since majority of these customers are central & state utilities and PSUs, the payment credit risk is expected to be limited although problem of delayed collection persists. TRIL also exports transformers to countries such as United Kingdom, Canada, United Arab Emirates, South Africa, Saudi Arabia, Indonesia, Australia, Russia and Nigeria.

Moderate scale of operations and profitability

During FY21, total operating income (TOI) of TRIL improved marginally to ~Rs.748 crore with moderate PBILD margin of around 10%, post a ~18% decline in TOI during FY20 primarily on account of Covid outbreak towards the end of Q4FY20, wherein final inspection of transformers by TRIL's clients got delayed leading to lower than expected sales in the month of March 2020. PAT margin however remained constrained at around 1% in FY21 with sizeable interest costs.

Further, TOI grew significantly by 67% y-o-y in H1FY22 with pickup in economic activities and order execution which resulted in gross cash accruals (GCA) of around Rs.17 crore registered in H1FY22 by the company as against GCA of Rs.9 crore in H1FY21. PBILD margin however moderated to around 8.50% in H1FY22 with significant rise in raw material prices.

As on December 30, 2020, the outstanding order book of TRIL stood at ~Rs.1,020 crore.

Stable long-term demand outlook; albeit susceptibility to cyclical demand

Government's plans to add sizeable power generation capacity in near to medium term would require a strong power evacuation infrastructure base in the country and this shall fuel the demand for T&D equipment. Government's focus on rural electrification, reduction in T&D losses and its efforts to increase coal availability and green energy market is also expected to result in stable demand for T&D players in near to medium term.

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

Overall, going forward, expected addition of transformation capacity is expected to augur well for the manufacturers of T&D equipment including transformers. However, challenges such as delays in order finalization and lack of availability of proper funding prevail. Also, company remains susceptible to cyclicity associated with capital goods industry which forms sizeable client base for the company.

Key Rating Weaknesses

Moderate leverage and debt coverage indicators

The capital structure of TRIL remained moderately leveraged marked by an overall gearing of more than unity i.e. of 1.09 times as on March 31, 2021 (P.Y. 1.01 times). Furthermore, debt coverage indicators also remained moderate with PBILD interest coverage of 1.64x in FY21 (P.Y: 1.48x). Total debt to GCA remained high at 12.62 times in FY21 (P.Y:16.27 times) with large working capital borrowings and limited cash accruals.

Exposure to volatile raw material prices

Prices of raw materials such as copper and cold rolled grain oriented (CRGO) steel which forms around 60% of the total raw material cost are volatile due to their global linkages. Significant portion of TRIL's outstanding orders have price variation clause which reduces the impact of this price volatility to a certain extent. However, profitability of the company overall remains exposed to volatile raw material prices.

Large working capital requirement with an elongated operating cycle

Industrial transformers are make-to-order product wherein clients provide the specifications based on which production may take one to several months depending on the complexity and size of transformers, which lead to high work-in-progress inventory. Also, since the sale of transformers is skewed more towards Q4 of a financial year, it results in large receivables at year end. TRIL's operating cycle thus continued to remain long at 179 days in FY21 (185 days in FY20) on the back of sizeable inventory and collection period, though partially funded through credit of around 130-140 days available from suppliers. It improved marginally in H1FY22 to 137 days with improvement in inventory and collection, but remained high. Consequently, TRIL relies heavily on bank borrowings to meet its working capital requirement. Similarly, TRIL is required to give performance bank guarantee for the delivered transformers for a period ranging from 3 to 7 years leading to high requirement for bank guarantees.

Liquidity of the company was supported by infusion of unsecured loan from promoters and avilment of long term loan backed by personal property of promoters during FY20, alongwith avilment of covid emergency loans. Utilization of its fund and non-fund based working capital limits continue to remain high, however cash accruals remain sufficient to meet the debt repayment obligations.

Analytical Approach: Consolidated

TRIL is the parent company with substantial business operations in the manufacturing of transformers. TRIL has five subsidiaries engaged in products or services related to the manufacturing of transformers. Further, large part of the bank facilities of these subsidiaries are guaranteed by TRIL. Hence, a consolidated view of TRIL and its subsidiaries has been considered for credit assessment.

*The list of subsidiaries considered in its consolidation is shown in **Annexure-3***

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Consolidation](#)

[Policy on Withdrawal of Ratings](#)

About the Company

Promoted by Mr Jitendra Mamtora in 1994, TRIL is engaged in manufacturing of electrical transformers and reactors, which find application in power transmission & distribution and industrial/commercial sectors. TRIL is amongst the largest domestic transformer manufacturers with an aggregate installed capacity of 33,200 mega volt ampere (MVA) as on March 31, 2020 at its three units located at Odhav (1,200 MVA), Changodar (12,000 MVA) and Moraiya (20,000 MVA) in Gujarat.

TRIL is present in the entire range of transformers, including power transformers up to 500 MVA, 1150 KV class and distribution transformers up to 5 MVA, 33 KV class. It also manufactures induction, electric arc furnace and rectifier transformers.

Brief Financials - Consolidated (Rs. Crore)	FY20 (A)	FY21 (A)	H1FY22 (Prov.)
Total operating income	704.15	748.95	488.28
PBILDT	67.68	75.96	41.87
PAT	1.05	7.60	8.34
Overall Gearing (times)	1.01	1.09	1.12
Interest coverage (times)	1.48	1.64	2.05

A: Audited; Prov: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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-4

Complexity level of various instruments rated for this company: Annexure 5

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
Non-fund-based - ST-Letter of credit		-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-Cash Credit		-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-Bank Guarantees		-	-	-	0.00	Withdrawn
Term Loan-Long Term		-	-	December 2022	0.00	Withdrawn

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 - ST-Letter of credit	ST	-	-	-	1)CARE A3 (07-Oct-20) 2)CARE A3 (09-Jul-20)	1)CARE A3+ (05-Sep-19)	1)CARE A3+ (09-Aug-18)
2	Fund-based - LT/ ST-Cash Credit	LT/ST*	-	-	-	1)CARE BBB; Stable / CARE A3 (07-Oct-20) 2)CARE BBB; Stable / CARE A3 (09-Jul-20)	1)CARE BBB+; Stable / CARE A3+ (05-Sep-19)	1)CARE BBB+; Stable / CARE A3+ (09-Aug-18)
3	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST*	-	-	-	1)CARE BBB; Stable / CARE A3 (07-Oct-20) 2)CARE BBB; Stable / CARE A3 (09-Jul-20)	1)CARE BBB+; Stable / CARE A3+ (05-Sep-19)	1)CARE BBB+; Stable / CARE A3+ (09-Aug-18)
4	Term Loan-Long Term	LT	-	-	-	1)CARE BBB; Stable (07-Oct-20) 2)CARE BBB; Stable (09-Jul-20)	1)CARE BBB+; Stable (05-Sep-19)	1)CARE BBB+; Stable (09-Aug-18)

* Long Term / Short Term

Annexure-3: List of subsidiaries and joint ventures of TRIL getting consolidated

Name of the Company	Relationship	% holding of TRIL as on March 31, 2021
Trail Infrastructure Ltd.	Subsidiary	100.00%
Transweld Mechanical Engineering Works Ltd.	Subsidiary	100.00%
Savas Engineering Company Pvt. Ltd.	Subsidiary	100.00%
Transpares Ltd.	Subsidiary	51.00%
T&R Switchgear Private Limited (Erstwhile known as T&R Jingke Electricals Equipment Pvt. Ltd.)	Joint Venture	60.00%

Annexure-4: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**Annexure 5: Complexity level of various instruments rated for this company**

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

Annexure 6: Bank Lender Details for this CompanyTo 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.

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About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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