

Alfa Transformers Limited

March 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	3.35	CARE B-; Stable	Revised from CARE D; Stable outlook assigned
Short Term Bank Facilities	10.96	CARE A4	Revised from CARE D

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Alfa Transformers Limited (ATL) considers delay/default free track record of debt servicing for a period of more than 90 days. CARE Ratings also notes the improvement in the financial performance of the company in 9MFY23 (refers to the period April 1 to December 31). The ratings continue to be constrained by stretched liquidity position, low order book position, exposure to volatility in raw materials and competitive nature of industry coupled with business risk associated with tender-based orders.

The ratings, however, derive strength from its experienced management with long track record of operations and reputed clientele.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- Increase in TOI above Rs.40 crore with PBILDT of more than Rs.3 crore on sustained basis.
- Improvement in liquidity position marked by average working capital utilization below 80% on sustained basis.

Negative factors

- Any further operating losses leading to weakening of liquidity position.

Analytical approach: Standalone

Key weaknesses

Weak financial performance and deterioration in capital structure in FY22; albeit improvement in 9MFY23: The total income (TOI) of the company has witnessed a de-growth of around 49% to Rs.10.13 crore in FY22 as compared to Rs.19.79 crore in FY21 on account of lower order executed. Consequently, the company continued to incur operating loss in FY22 mainly on account of higher operational expenses and lower margin orders execution.

Nonetheless, financial performance of the company witnessed improvement in mainly Q2FY23 and Q3FY23 as the company has executed higher orders on the back improved liquidity position attributable to the fund infused by the promoters in the form of unsecured loans to the tune of Rs.3.26 crore, reinstatement of working capital limits by the banker and comparatively better collection from debtors. Consequently, TOI of the company increased to Rs.22 crore and profit after tax (PAT) of Rs.0.80 crore in 9MFY23 vis-à-vis TOI of Rs.6.54 crore and loss of Rs.3.34 crore in 9MFY22.

The capital structure of ATL further moderated in FY22 over FY21 due to negative net-worth of the company as the company continuously incurred cash losses during the said period. Nonetheless, the same is expected to improve in FY23 based 9MFY23 performance.

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

Low order book position of the company: Alfa Transformers Limited has low order book position of Rs.6.60 crore as on Jan 31, 2023. However, the company is expecting an order of Rs.25 crore to Rs.30 crore from Gujarat Discom by end of February, 2023 which will lead to revenue visibility in the near term.

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, aluminum, cold rolled grain-oriented insulation materials resistance materials and other steel materials the prices of which are volatile and may affect the company's margins.

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.

Key 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 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: Stretched

Stretched liquidity position is marked by cash losses incurred in the last 3 financial years. The debt repayment obligations are being met through utilization of working capital limits. Nonetheless, liquidity position has improved in 9MFY23 on the back of cash profit earned by the company during the period, unsecured loans infused by promoters to the tune of Rs.3.26 crore and reinstatement of working capital limits by the lenders.

Going forward, liquidity position of the company is expected to improve on the back of improved financial performance.

Applicable Criteria

- [Policy on default recognition](#)
- [Financial Ratios – Non-financial Sector](#)
- [Liquidity Analysis of Non-financial sector entities](#)
- [Policy On Curing Period](#)
- [Rating Outlook and Credit Watch](#)
- [Short Term Instruments](#)
- [Manufacturing Companies](#)
- [Policy on Withdrawal of Ratings](#)

About the company and industry

Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Electrical Equipment	Heavy Electrical Equipment

Odisha based ATL, incorporated in 1982, is promoted by Mr. D. K. Das. ATL manufactures small distribution transformers and offers related technical assistance and services, including repair work. The company has two manufacturing units located at Bhubaneswar and Vadodara.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (U/A)
Total operating income	19.66	9.66	21.96
PBILDT	-5.97	-2.64	2.28
PAT	-11.79	-3.96	0.81
Overall gearing (times)	1.47	NM	NA
Interest coverage (times)	NM	NM	2.68

A: Audited; U/A: Unaudited; NM: Not meaningful; NA: Not available

Status of non-cooperation with previous CRA: Issuer Not Cooperating from CRISIL as per press release dated March 31, 2022.

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various 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 along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	3.34	CARE B-; Stable
Fund-based - LT-Term Loan	-	-	-	Already repaid. *	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 yet 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 (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	3.34	CARE B-; Stable	1)CARE D (02-Jun-22) 2)CARE B-; Stable (01-Apr-22)	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 D (02-Jun-22) 2)CARE B-; Stable (01-Apr-22)	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 D (02-Jun-22) 2)CARE A4 (01-Apr-22)	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 D (02-Jun-22) 2)CARE A4 (01-Apr-22)	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 the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

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

Note on the complexity levels of the rated instruments: CARE Ratings 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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