Voltamp Transformers Limited

October 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	10.00	CARE AA; Stable	Reaffirmed
Long-term/Short-term bank facilities	282.50	CARE AA; Stable/CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Voltamp Transformers Limited (VTL) continue to derive strength from its established track record of operations in the transformer business with focus on a 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 Limited (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, its reliance on non-fund-based working capital limits, and the susceptibility of its profitability to volatile raw material prices and high competitive intensity.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- Sustained decline in the TOI to below ₹1,000 crore.
- Significant depletion in its liquidity, with unencumbered liquid investments falling below ₹300 crore or significant elongation in the gross working capital cycle with sustained negative cash flow from operations.
- Deterioration in the overall gearing to beyond 0.50x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings expects that VTL will continue to maintain its comfortable financial profile on the back of its strong presence in the transformer industry with a focus on a diversified clientele across varied industries.

Detailed description of the key rating drivers

Key strengths

Experienced management with long track record of operations in the transformer industry

The late Lalit Kumar Patel, the 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.

Kunjal L Patel, Vice Chairman of VTL, is the son of the late Lalit Kumar Patel and holds a bachelor's degree in electrical engineering. He has over two decades of experience in the production and marketing of transformers and looks after the overall operations of

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

the company, including purchase and planning, manufacturing, quality control, and design aspects. 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 the past few years, 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. However, 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 refinery, textile, chemical, real estate, automobile, infrastructure and steel, spread across the country. Over the years, VTL has established long-standing relationships with reputed players in these industries, which has facilitated it in securing repeat orders from its clients. Furthermore, over 95% of VTL's sales in the past three years have been to private sector players having good credit profiles, thereby resulting in limited exposure to state government-owned power sector undertakings, wherein, inherently, the receivables are elongated. VTL's top 10 customers comprised around 26% of its total sales during FY23 (FY refers to the period from April 1 to March 31) (FY22: 23% of the total sales). VTL's focus on private sector players with good credit profiles along with a diversified clientele has held it in good stead over the years by way of relatively steady profitability and healthy generation of cash flows through the timely realisation of receivables.

Improved profitability and return indicators
During FY23, VTL's TOI improved by 23% on a y-o-y basis to ₹1,385.47 crore, primarily on the back of strong demand and improved realisations. The company's profit before interest, lease rentals, depreciation and taxation (PBILDT) margin improved to 16.70% vis-à-vis 12.36% in FY22 on account of the softening of raw material prices and the liquidation of cold rolled grain-oriented (CRGO) steel, a key imported raw material that was stocked up as buffer to protect from any supply disturbances caused due to the Russia-Ukraine war.

While VTL's operating ROCE remained healthy at 48.46% during FY23, its total ROCE also improved to 25.50% due to higher returns on its sizeable investment portfolio during the year, which formed a good part of the company's overall capital employed. However, going ahead, the profit margins are expected to normalise, which can also moderate the ROCE to a certain extent.

Good revenue visibility with improvement in its order book
VTL's selective order booking with focus on cash flows has resulted in its moderate scale of operations over the years, albeit with the relatively stable profitability and build-up of significant unencumbered liquid investments that has been maintained in the company.

The order book also improved to ₹1,402 crore as on September 21, 2023 (vis-à-vis ₹1,140 crore as on August 14, 2022), which provides good near-term revenue visibility. CARE Ratings expects VTL's sales to grow by around 3-5% during FY24 on a y-o-y basis in spite of the softening of raw material prices.

Comfortable capital structure and healthy debt coverage indicators
VTL's capital structure continued to remain comfortable, marked by a strong net worth base of ₹1,107 crore as on March 31, 2023, against no outstanding fund-based debt (except for interest-free mobilisation advances). Its overall gearing was comfortable at 0.05x as on March 31, 2023 (PY: 0.07x). Its debt coverage indicators, viz, PBILDT interest coverage, total debt (TD)/gross cash accruals (GCA) and TD/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 comfortable in the medium term.

Liquidity: Strong
The liquidity of VTL continues to remain strong, marked by nil term debt repayment obligations, nil utilisation of fund-based working capital limits, along with the presence of healthy and growing unencumbered liquid investments, which stood at around ₹717 crore as on March 31, 2023. Furthermore, the company has a practice of investing a maximum of up to 15% of its corpus in equity-oriented funds and the balance is invested in debt funds, which mainly includes G-secs and bonds with high credit ratings. The company mainly utilises non-fund-based limits in the form of bank guarantees (BGs) in its normal course of business, the average utilisation of which (including long-term performance guarantees) remained moderate at around 72% during the

trailing 12 months ended June 30, 2023. VTL's liquidity is further underpinned by its healthy current ratio of 4.84x as on March 31, 2023.

Furthermore, with a comfortable capital structure, VTL has sufficient gearing headroom to raise additional debt for its capex and working capital needs. Also, its entirely unutilised fund-based working capital bank lines are more-than-adequate to meet its incremental working capital needs over the next one year.

Key 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. The significant increase in its TOI along with the 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.

Susceptibility of operating profitability to significant increase in raw material prices and high competitive intensity

The primary raw materials required by VTL are copper, silicon steel, CRGO steel, and transformer oil. The prices of these raw materials are highly volatile in nature, as they are linked to the prices in the global market. This exposes VTL's profitability to raw material price fluctuation risks, since most of the company's orders are fixed-price in nature. Also, the global manufacturing of CRGO steel concentrated among 15 major suppliers and the 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 import or export income and has a reasonable hedging policy in place for its major raw materials (mainly copper). The average prices of its key raw materials have shown significant fluctuations during the past one-year period. However, the company was able to safeguard itself from any major impact on the back of the timely revision in the prices of its products. However, the high volatility in the prices of its key input materials continues to remain a threat to the profitability of the company.

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 BGs (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 three years to six years. However, there has not been any instance of invocation of such guarantee extended by the company over the past 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 and 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 months 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 the release of retention money. Financial BGs are required by it for the availment of mobilisation advances. However, a large part of the guarantees issued by the company are PBGs.

Environment, social, and governance (ESG) risks

Risk factors	Compliance and action by the company
Environmental	The following management systems have been implemented: • ISO 9001:2015 Quality Management System • ISO 14001:2015 Environment Management System • ISO 45001:2018 Occupational Health & Safety Management System BIS certificates to ensure the quality, safety, and reliability of products in accordance with Indian standards. The company aims to achieve carbon neutrality in its operations. It is targeting to reduce its carbon emissions by 40% along the value chain. The company has achieved the first step as a target set out in its sustainability 2027 plan – the use of 50% fossil-free electricity in its operations. This will ease out more than 40% of the target to achieve carbon neutrality in operations.
Social	As an organisation, the company has a strong focus on safety and has helped employees stay healthy both, physically and mentally. The HSE Management system has been implemented as per ISO 14001 and 45001 and continual improvements are done. Activity based risk assessment is conducted for all activities that present a risk to HSE. Training plans are also developed based on the assessment of

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	the current level of competence and awareness. All staff and person working on behalf of the company participate in training as defined in the training plan. Hazards and control measures are communicated before the start of an activity and monitored to ensure that controls are implemented. Internal and external audits are carried out to check the adequacy of systems, procedures, and controls implemented.
Governance	Governance practices foster a culture of ethical behaviour and fair disclosures, which aims to build the trust of stakeholders. The company has established systems and procedures to ensure that its Board is well-informed and well-equipped to fulfill its overall responsibilities and to provide the management with the strategic direction needed to create long-term shareholders value. It ensures fairness, transparency, accountability, and integrity of the management. The corporate governance philosophy of the company has been further strengthened through the company's Code of Conduct, Code for Fair Disclosure, and Code for Prevention of Insider Trading.

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
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

Promoted by the late Lalit Kumar Patel 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 refinery, 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 14,000 MVA as on March 31, 2023.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	1,127.58	1,385.47	322.19
PBILDT	139.37	231.35	47.99
PAT	132.84	199.94	50.78
Overall gearing (times)	0.07	0.05	NA
Interest coverage (times)	174.91	259.82	199.96

A: Audited; UA.: Unaudited; NA: Not available. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Instrument	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	-	-	-	10.00	CARE AA; Stable
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	282.50	CARE AA; Stable / CARE A1+

Annexure-2: Rating history for the 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 2023-2024	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
1	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	282.50	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (27-Sep-22)	1)CARE AA; Stable / CARE A1+ (01-Sep-21)	1)CARE AA; Stable / CARE A1+ (07-Jul-20)
2	Fund-based - LT-Cash Credit	LT	10.00	CARE AA; Stable	-	1)CARE AA; Stable (27-Sep-22)	1)CARE AA; Stable (01-Sep-21)	1)CARE AA; Stable (07-Jul-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated 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	Non-fund-based - LT/ ST-Bank Guarantee	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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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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