

## Alfa Transformers Limited

January 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	3.35	CARE BB-; Stable	Reaffirmed
Short Term Bank Facilities	10.96	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Alfa Transformers Limited (ATL) factors-in the improvement in the financial performance of the company in FY23 (refers to the period April 1 to March 31) and H1FY24 (April 1 to September 30) along with stable order book position. The ratings continue to be constrained by stretched liquidity position, exposure to volatility in raw materials prices and competitive nature of industry coupled with business risk associated with tender-based orders. The ratings, however, derive strength from the experience of management along with long track record of operations, reputed clientele and moderate order book position.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Increase in total operating income (TOI) above Rs.75 crore while maintaining the current PBILDT margins on sustained basis.
- Improvement in liquidity position marked by average working capital utilization below 80% on sustained basis.

#### Negative factors

- Any operating losses leading to weakening of liquidity position.
- Any major debt funded capex leading to moderation in the capital structure of the company from current levels.

**Analytical approach:** Standalone

#### Outlook: Stable

The 'Stable' outlook assigned to the long-term rating is based on the ability of the company to sustain the improvement in financial performance and the capital structure under the guidance of experienced promoters over the medium term and expected need base infusion of fund from the promoters.

### Detailed description of the key rating drivers:

#### Key weaknesses

##### Small scale of operation and leveraged capital structure; albeit improvement in FY23 and H1FY24:

The company has small scale of operation with TOI of Rs.29.05 crore (P.Y. Rs.10.13 crore) and profit after tax (PAT) of Rs.1.01 crore (P.Y. Loss of Rs.3.96 crore) in FY23 and networth of Rs.1.30 crore as on March 31, 2023. Nonetheless, financial performance of the company witnessed sharp improvement in H1FY24 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, reinstatement of working capital limits by the banker and comparatively better collection from debtors. Furthermore, the improved financial position continued to sustain in H1FY24 where the company reported TOI of Rs.26.25 and PAT of Rs. 7.29 crore. Going forward, the improvement in TOI and margins are expected to be sustained on the back of increasing order book position.

Although the capital structure of the company improved, the same continued to remain leveraged with overall gearing of 5.98x as on March 31, 2023, attributable to increase in total debt levels and low networth base. During H1FY24, the capital structure further improved with overall gearing of 1.00x as on September 30, 2023, driven by increase in networth attributable to accretion of profits to reserves and largely stable debt levels. The capital structure is expected to remain at current levels in the near term, with an expected increase in both debt levels, to meet the working capital requirements, and networth base through accumulation of profits.

#### Exposure to volatility in raw material prices

The company is engaged in the 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.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### 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.

#### Moderate order book position

The order book position of the stood at Rs. 20.71 crore as on September 30, 2023 as against Rs.43 crore as on August 30, 2023, which will lead to revenue visibility in the near term.

#### Reputed clientele

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

#### Liquidity: Stretched

A stretched liquidity position is marked by cash losses incurred in the last 3 financial years ending FY22. The debt repayment obligations were met by utilization of working capital limits. Nonetheless, liquidity position gradually improved in FY23 and H1FY24 on the back of cash profit earned by the company during the same period. Going forward, the liquidity position of the company is expected to improve on the back of improved financial performance attributable to higher order book position.

### 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

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, 2022 (A)	March 31, 2023 (A)	H1FY24 (A)
Total operating income	9.66	29.05	26.25
PBILDT	-2.64	2.64	2.48
PAT	-3.96	1.01	7.29
Overall gearing (times)	-15.19	5.98	1.00
Interest coverage (times)	-3.08	2.21	3.45

A: Audited; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** CRISIL has conducted the review on the basis of best available information and has classified the ATL as “Not cooperating” vide its press release dated May 31, 2023.

**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-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	3.34	CARE BB-; Stable
Fund-based - LT-Term Loan		-	-	Already repaid*	0.01	CARE BB-; 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, the No Dues Certificate is yet to be received.

#### 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	Fund-based - LT-Cash Credit	LT	3.34	CARE BB-; Stable	1)CARE BB-; Stable (07-Sep-23)	1)CARE B-; Stable (06-Mar-23) 2)CARE D (02-Jun-22) 3)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)

2	Fund-based - LT-Term Loan	LT	0.01	CARE BB-; Stable	1)CARE BB-; Stable (07-Sep-23)	1)CARE B-; Stable (06-Mar-23) 2)CARE D (02-Jun-22) 3)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)
3	Non-fund-based - ST-Bank Guarantee	ST	7.96	CARE A4	1)CARE A4 (07-Sep-23)	1)CARE A4 (06-Mar-23) 2)CARE D (02-Jun-22) 3)CARE A4 (01-Apr-22)	1)CARE A4 (09-Jul-21)	1)CARE A4 (22-Mar-21) 2)CARE A4 (08-Jul-20)
4	Non-fund-based - ST-Letter of credit	ST	3.00	CARE A4	1)CARE A4 (07-Sep-23)	1)CARE A4 (06-Mar-23) 2)CARE D (02-Jun-22) 3)CARE A4 (01-Apr-22)	1)CARE A4 (09-Jul-21)	1)CARE A4 (22-Mar-21) 2)CARE A4 (08-Jul-20)

\*Long term/Short term.

**Annexure-3: Detailed explanation of 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](mailto:care@careedge.in) for any clarifications.

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