Tesla Transformers (India) Limited

September 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	12.34 (Enhanced from 5.61)	CARE BBB; Stable	Revised from CARE BBB-; Positive
Long-term / short-term bank facilities	72.50 (Enhanced from 65.00)	CARE BBB; Stable / CARE A3+	Revised from CARE BBB-; Positive / CARE A3
Short-term bank facilities	25.00	CARE A3+	Revised from CARE A3

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of Tesla Transformers (India) Limited (TTIL) factors in sustained growth in its scale of operations over last three years ended FY24, improved revenue visibility, and sustenance of its moderate capital structure and debt coverage indicators. Ratings of TTIL continue to derive strength from its experienced promoters and its established track record of operations in the transformer industry and its reputed and diversified clientele and adequate liquidity.
However, ratings continue to be constrained considering its moderate profitability, its profitability susceptible to volatile raw material prices and foreign exchange rates, and company's presence in a competitive transformer industry saddled with execution challenges.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Volume driven growth in TOI beyond Rs.500 crore along with sustained PBILDT margin and ROCE
- Sustenance of overall gearing below unity along-with improvement in liquidity profile with reduced reliance on external borrowings

Negative factors

- Decline in TOI to lower than Rs.250 crore or any major moderation in PBILDT margin on a sustained basis
- Any large sized debt-funded capex resulting in deterioration in overall gearing beyond unity or moderation in debt coverage indicators on sustained basis
- Elongation in operating cycle beyond 120 days and increase in external borrowings to fund these requirements, on sustained basis

Analytical approach: Standalone

Outlook: Stable

The 'stable' outlook reflects TTIL's ability to sustain growth in its scale of operations supported by ongoing capacity addition plans and healthy orderbook, along with sustenance of its return indicators and moderate capital structure.

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

Detailed description of key rating drivers:

Key strengths

Experienced promoters with established operations in transformer industry: The promoters of TTIL have a long-standing experience of over four decades in the transformer industry along with an established track record in the manufacturing of a wide range of power and distribution transformers through their association with Tesla Transformers Limited (TTL) from which it has been demerged. At present, the company is managed by Jaideep Jain, an electrical engineer and son of Late V. K. Jain (promoter founder of the Tesla group) and family members. Jaideep Jain possesses experience of around three decades in the transformer industry.

Reputed and diversified clientele: Over a span of more than four decades in the industry, TTIL has developed strong associations and relations with its clients. Owing to the same, TTIL secures repeat orders from its customers. TTIL's clientele consists of reputed public sector power transmission and distribution (T&D) entities, along with reputed private players engaged in engineering, procurement, and construction (EPC) business in the power T&D industry.
Furthermore, TTIL exports transformers to various countries including Australia, South Africa, Afghanistan, Libya, Bangladesh, and Nepal. Exports constitute a moderate portion of TTIL's gross sales (around 27% in FY24, 31% in FY23).
TTIL's clientele remained diversified as sales from its top 10 customers stood at 57% of total sales in FY24 (59% in FY23), indicating moderate customer concentration. Furthermore, the proportion of sales to private players remains at around 60%, where payments are backed by advance and letter of credit (LC) or are through vendor financing, mitigating the counter party risk to some extent.

Improvement in capital structure with moderate debt coverage indicators: The capital structure of TTIL continued to remain moderate marked by overall gearing of 0.68x as on March 31, 2024, improved from 0.97x as on March 31, 2023. The improvement in capital structure is mainly on account of release of corporate guarantee extended by TTIL to its group entity i.e TTL along with lower reliance on LC backed creditors. Total Outside liabilities to tangible networth (TOL/TNW) also stood moderate at 1.76x at FY24 end (P.Y:2.06x).
TTIL is undertaking capex for capacity addition along with setting up a facility to manufacture and sell larger class of transformers upto 220 KV class from the present average range of around 66 to 132 KV Class at the estimated cost of ₹12.00 crore, to be funded by term loan of ₹8.00 crore, which is already sanction. Despite availment of the term debt for the said capex, overall gearing is projected to remain moderate below unity over the medium term. Nevertheless, controlled working capital cycle shall remain crucial for the debt profile of the entity.
The debt coverage indicators of the company continued to remain moderate marked by PBILDT interest coverage of 2.10x (P.Y.2.17x) and Total Debt/GCA improved to 4.96 years (P.Y.: 8.81 years) as on March 31, 2024.

Growth in TOI with improved revenue visibility, albeit moderate profitability: Total Operating Income (TOI) of TTIL grew at Compounded Annual Growth Rate (CAGR) of 45% for the period between FY22 to FY24 to Rs.319.24 crore for FY24.
The growth in was backed by a 14% volume growth registered during FY24 on y-o-y basis (19% in FY23). During Q1FY25, TTIL registered sales of ₹98.60 crore.
Also, as on July 30, 2024, TTIL had outstanding order book of Rs.328.99 crore to be executed largely in FY25, which shall result in sustained growth in its total operating income during the year. TOI is projected to gradually improve further to over ₹450-480 crore over medium term, through capacity addition project being undertaken by TTIL. Post this capex, installed capacity of TTIL shall increase upto 3,000 MVA/Annum. The additional capacity is estimated to become operational by Q4FY25.
TTIL's operating profitability continued to remain moderate with PBILDT margin of 6.26% in FY24, though improved from 5.40% in FY23 owing to company's focus on higher KV class transformers which fetches better margin. High competition in the industry alongwith availment of large part of work from private parties where the company has low bargaining power restricts the margins of the company.
Return indicators, marked by ROCE, improved to ~21.99% (15.89% during FY23) with growth in scale and profitability.
With company's continued focus on higher KV class transformers supported by new capacity being installed in this segment, the improvement in profitability and return indicators are expected to sustain over medium term, but remain range bound.

Key weaknesses

Exposure to volatile raw material prices and forex exchange rates

Raw materials such as copper, cold rolled grain oriented (CRGO) steel, transformer oil, and aluminium form majority (70-80%) of TTIL's total raw material costs. Raw material prices are highly volatile in nature, guided by the international demand-supply scenario due to their global linkages. This exposes TTIL to major adverse raw material price fluctuation, though presence of price escalation clauses in the company's orders insulates it against this risk to an extent.

CRGO is largely imported by domestic transformer players and some proportion of copper; hence, it also remains exposed to adverse movement in foreign exchange rates. However, some part of TTIL's sales is by way of exports (exports formed around 27% of TOI in FY24 against imports of 4% of total cost of materials consumed), which provides natural hedge to its foreign currency exposure to an extent.

Presence in a competitive transformer industry saddled with execution challenges

The domestic transformer manufacturing industry is highly fragmented marked by presence of many players, especially for lower KV class transformers and thus remains competitive. Players also face competition by way of imports from countries such as China. This and tender-based procurement by majority of the customers results in pressure on pricing and margins for the industry players. Players in the transformer industry also face multiple execution challenges such as lack of clearances for projects and weak financial health of distribution companies, restricting the order inflow and impacting liquidity.

Liquidity: Adequate

TTIL's liquidity profile stood adequate with adequacy of accruals against the scheduled repayment obligation, improved operating cycle, working capital support in form of extended credit period, and advances from suppliers.

TTIL's operations are working capital intensive in nature, which is inherent to the transformer industry, owing to its sizeable inventory holding requirement for smooth execution of orders which also factors in the time taken for inspection and certification by customers, substantial credit period extended mainly to state utilities, and a reasonably long order execution cycle due to diverse nature of transformers. However, its gross operating cycle stood improved at 189 days in FY24 (P.Y: 245 days).

TTIL receives considerable credit period from its suppliers, which lends support to its overall working capital cycle. TTIL's operating cycle stood moderate at 69 days as on March 31, 2024 (P.Y: 76 days).

Average utilisation of fund-based limits remained moderate at ~86% for the trailing 12 months ended July 2024. TTIL also needs to provide bank guarantee for its supplies to distribution companies, owing to which, the average utilisation of non-fund-based limit stood moderate at 86% for the trailing 12 months ended July 2024. To support growth in scale of operations, TTIL has availed enhancement in non-fund-based limit of ₹7.50 crore in FY23, this provided cushion to its liquidity to certain extent.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About company and industry

Industry classification

Macroeconomic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Electrical equipment	Other electrical equipment

TTIL (CIN: U31900MP2017PLC042200) was incorporated in January 2017 as a result of demerger of TTL into two separate entities, viz., TTIL and TTGPL. Prior to demerger, TTL, since 1972, was engaged in the manufacturing of power and distribution transformers up to 63 mega volt ampere (MVA); 132 kilo volt (KV) class along with the execution of turnkey projects up to 220 kV class. TTL was jointly promoted by the Jain and Siddiqui families based at Bhopal, Madhya Pradesh.

The de-merger was done largely to separate the business of TTL into two separate entities, each individually managed by one of the promoter families. Post demerger, effective from April 1, 2018, TTIL is managed by the Jain family and undertakes manufacturing of power and distribution transformers.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (Prov.)
Total operating income	241.50	319.24	98.60
PBILDT	13.03	19.97	NA
PAT	5.61	8.01	NA
Overall gearing (times)	0.97	0.68	NA
Interest coverage (times)	2.17	2.10	NA

A: Audited, Prov.: Provisional; NA: Not available. Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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-Term loan		-	-	31/03/2030	10.07	CARE BBB; Stable
Fund-based - LT-Working capital demand loan		-	-	-	2.27	CARE BBB; Stable
Fund-based - LT/ ST-CC/PC/Bill discounting		-	-	-	25.00	CARE BBB; Stable / CARE A3+
Non-fund-based - LT/ ST-Bank guarantee		-	-	-	47.50	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Letter of credit		-	-	-	25.00	CARE A3+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT/ ST-CC/PC/Bill discounting	LT/ST	25.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Positive / CARE A3 (03-Nov-23)	1)CARE BBB-; Stable / CARE A3 (17-Nov-22) 2)CARE BBB-; Stable / CARE A3 (04-Aug-22)	1)CARE BBB-; Stable / CARE A3 (05-Jul-21)
2	Non-fund-based - LT/ ST-Bank guarantee	LT/ST	47.50	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Positive / CARE A3 (03-Nov-23)	1)CARE BBB-; Stable / CARE A3 (17-Nov-22) 2)CARE BBB-; Stable / CARE A3 (04-Aug-22)	1)CARE BBB-; Stable / CARE A3 (05-Jul-21)
3	Non-fund-based - ST-Letter of credit	ST	25.00	CARE A3+	-	1)CARE A3 (03-Nov-23)	1)CARE A3 (17-Nov-22) 2)CARE A3 (04-Aug-22)	1)CARE A3 (05-Jul-21)
4	Fund-based - LT-Working capital demand loan	LT	2.27	CARE BBB; Stable	-	1)CARE BBB-; Positive (03-Nov-23)	1)CARE BBB-; Stable (17-Nov-22) 2)CARE BBB-; Stable (04-Aug-22)	1)CARE BBB-; Stable (05-Jul-21)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
5	Fund-based - LT-Term loan	LT	10.07	CARE BBB; Stable	-	1)CARE BBB-; Positive (03-Nov-23)	1)CARE BBB-; Stable (17-Nov-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	Fund-based - LT-Working capital demand loan	Simple
3	Fund-based - LT/ ST-CC/PC/Bill discounting	Simple
4	Non-fund-based - LT/ ST-Bank guarantee	Simple
5	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of 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 clarifications.

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