Voltamp Transformers Limited

September 09, 2024

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 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 any debt-fuelled growth coupled with healthy 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 ratings, however, continue 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.
- Return on capital employed (ROCE) remaining above 20% on a sustained basis along with 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 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 believes VTL's strong presence in the transformer industry with a focus on a diversified clientele across varied industries shall support its business risk profile and ensure sustenance of comfortable financial risk profile.

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 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 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.

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

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. The company has established long-standing relationships with reputed players in these industries, which has facilitated in securing repeat orders from its clients. Furthermore, majority of 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. The company's top 10 customers comprised around 27% of its total sales during FY24 (FY23: 26%). 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.

Improvement in operating performance and return indicators

VTL operating performance has witnessed a healthy improvement over the last few years led by increase in the overall demand for the transforms as well as improvement in the realisations. Capacity utilisation has witnessed a sustained improvement to 93% during FY24 from 85% in FY23 and 80% during FY22. As a result, scale of operations has witnessed a CAGR of ~20% over the last two years through FY24. During FY24, VTL's revenue grew by 17% y-o-y to ₹1,616 crore led by ~10% growth in the volume sales and ~6% growth in the realisation. Improved product prices and sustained growth in the scale of operations has led to expansion in company's profit before interest, lease rentals, depreciation and taxation (PBILDT) margin to ~20% compared during FY24 from 16.70% during FY23 (FY22: 12.36%). PBILDT margin improvement has also been partially supported by inventory gain, given the lead time involved in manufacturing amidst increasing product prices. Total ROCE thus improved to 30.62% during FY24 (FY23: 24.03%; FY22: 19.25%) supported by such improvement in profitability coupled with high returns on its sizeable investment portfolio during the year, which formed a good part of the company's overall capital employed. CARE Ratings believes while scale of operations is expected to witness a marginal growth during FY25, given current higher capacity utilisation level, the profit margins are expected to normalise going forward, in view of increase in the competitive intensity coupled with increase in key raw material price including cold rolled grain oriented (CRGO) steel, which in turn is also expected to lead to moderation in the overall ROCE to a certain extent.

Healthy order book level provides revenue visibility

VTL has a healthy order book level of ₹1,475 crore as on August 03, 2024, which provides good near-term revenue visibility. CARE Ratings expects VTL's sales to grow by around 5-6% y-o-y during FY25 given the existing healthy order book level coupled with healthy demand for transformers supported by higher capex intensity level in the industry.

VTL's selective order booking with focus on cash flows had resulted in its moderate scale of operations over the years, albeit relatively stable profitability has led to build-up of significant unencumbered liquid investments that has been maintained in the company. CARE Ratings understands that liquidity will remain in the company given no current utilisation plans.

Comfortable capital structure and healthy debt coverage indicators

VTL's capital structure continues to remain comfortable, marked by a strong net worth base of ₹1,353 crore as on March 31, 2024, against no outstanding fund-based debt (except for interest-free mobilisation advances and lease liabilities). Including the lease liabilities and mobilisation advances, overall gearing stood comfortable at 0.07x as on March 31, 2024 (PY: 0.05x). 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.

The company is expanding its manufacturing capacity by 6000 MVA to 20,000 MVA at the cost of around ₹200 crore. The capex shall be funded through internal accruals. Land acquisition for the new site is in progress and the same is expected to be completed by December 2024, while the commencement of commercial operations is expected to happen in Q1FY27. The capacity expansion will enable the company to manufacture transformers with the capacity up to 250 MVA as against current 160 MVA. CARE Ratings expects VTL's leverage and debt coverage to continue to remain comfortable in the medium term supported by healthy cash flow from operations coupled with management's conservative stance on availing debt.

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 strong unencumbered liquid investments, which stood at ~₹800 crore as on March 31, 2024. 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, 2024 even with significant growth in its scale of operations. VTL's liquidity is further underpinned by its healthy current ratio of 3.64x as on March 31, 2024. Furthermore, with a comfortable capital structure, VTL has sufficient gearing headroom to raise additional debt for its capex and working capital needs.

Key Weaknesses

Moderate scale of operations
VTL's scale of operations is expected to remain at a moderate level compared to the size of the transformer industry and the larger capital goods industry. The company is undertaking the capex, which is expected to enhance the current capacity by around 43%. The enhanced capacity is expected to be operational in Q1FY27. 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.

Profitability susceptibility to raw material prices; 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 the company'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 is 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 direct imports or export income and has a reasonable hedging policy in place for its major raw materials (mainly copper). 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. Also, the risk is partially offset by the company's selective order booking. Nonetheless, 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 many 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. As part of steps to achieve carbon neutrality, the Company has installed rooftop solar for electrification at all factory locations and set a deadline by 2027 all the electricity needs will be fulfilled from renewable sources only. During FY24, to reduce GHG emissions, the Company has started initiative to support the customer to swat their assets to optimal level. The company extended life of transformers equivalent to 500 MVA which resulted in reduction of carbon emission by 60000 KG.
Social	The Company has implemented HSE Management system as per ISO 14001 & 45001 and continual improvements are done. Activity based risk assessment is conducted for all activities which present a risk to HSE. Training plans are also developed based on the assessment of the current level of competence and awareness. All staff and person working on behalf of the Company participates in training as defined in the training plan. Hazards and control measures are communicated before start of the 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	The Board of the company comprises of 6 directors including 3 independent Directors. 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.

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 the company and industry

Industry classification

Macroeconomic 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, 2024.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	1,385.47	1,616.71	428.15
PBILDT	231.35	323.10	75.79
PAT	199.94	307.36	79.44
Overall gearing (times)	0.05	0.07	NA
Interest coverage (times)	259.82	155.22	219.69

A: Audited UA: Unaudited; 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 the last three years: Annexure-2

Covenants of the rated facilities: 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 and 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 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	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	282.50	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (04-Oct-23)	1)CARE AA; Stable / CARE A1+ (27-Sep-22)	1)CARE AA; Stable / CARE A1+ (01-Sep-21)
2	Fund-based - LT-Cash Credit	LT	10.00	CARE AA; Stable	-	1)CARE AA; Stable (04-Oct-23)	1)CARE AA; Stable (27-Sep-22)	1)CARE AA; Stable (01-Sep-21)

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

Annexure-3: Detailed explanation of the covenants of the rated facilities: Not Applicable

Annexure-4: Complexity level of 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 complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
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