Voltamp Transformers Limited

September 27, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	10.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long-term / Short-term bank facilities	282.50	CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable/ A One Plus)	Reaffirmed
Total bank facilities	**292.50 (₹ Two hundred ninety-two crore and fifty lakh only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

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

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in total operating income (TOI) to more than ₹3,000 crore along with diversification in product profile
- Improvement in return on capital employed (ROCE) to above 20% on a sustained basis along with sustenance of comfortable capital structure and strong liquidity

Negative factors – Factors that could lead to negative rating action/downgrade:

- Sustained decline in 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 overall gearing to beyond 0.50x on a sustained basis

Detailed description of the key rating drivers

Key rating strengths

Experienced management with long track record of operations in transformer industry: 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 production and marketing of transformers and looks after the overall operations of the company including purchase and planning, manufacturing, quality control and design aspects. Mr 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 past few years, when 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, 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 refineries, textile,

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

chemical, real estate, automobile, infrastructure and steel spread across the country. Over the years, VTL has established long-standing relationship with reputed players in these industries which have facilitated it in securing repeat orders from its clients. Furthermore, over 95% of VTL's sales in last three years have been to private sector players having good credit profile, thereby resulting in very limited exposure to State government-owned power sector undertakings wherein inherently the receivables are elongated. VTL's top ten customers comprised around 23% of its total sales during FY22 (refers to the period April 1 to March 31) (FY21: 58% of the total sales). VTL's focus on private sector players with good credit profile along with diversified clientele has held it in good stead over the years by way of relatively steady profitability and healthy generation of cash flows through timely realisation of receivables.

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 relatively stable profitability and build-up of significant unencumbered liquid investments which has been maintained in the company.
During FY22, VTL's TOI improved by 63% on a y-o-y basis to ₹1,127.58 crore primarily on the back of recovery in the demand post the sub-optimal performance in FY21. Despite the cost pressure from the key input materials, the company was able to marginally improve its PBILDT margins to 12.36% in FY22 vis-à-vis 11.24% during FY21.
While VTL's operating ROCE remained healthy at over 21% during FY22, its total ROCE also improved to 18% due to moderate return on its sizeable investment portfolio which formed a good part of the company's overall capital employed.
Furthermore, the order book also improved to ₹1,140 crore as on August 14, 2022 (vis-à-vis ₹772 crore as on August 14, 2021) which provides good near-term revenue visibility. CARE Ratings expects VTL's sales to grow by around 13% during FY23 on a y-o-y basis.

Comfortable capital structure and healthy debt coverage indicators: VTL's capital structure continued to remain comfortable marked by a strong net worth base of ₹942 crore as on March 31, 2022, against no outstanding fund-based debt (except for interest-free mobilisation advances). Its overall gearing was very comfortable at 0.07x as on March 31, 2022 (P.Y.: 0.04x). Its debt coverage indicators, viz., PBILDT interest coverage, Total Debt/GCA and Total Debt/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 very comfortable in the medium term.

Liquidity: Strong
Liquidity of VTL continues to remain strong marked by nil term debt repayment obligations, nil utilisation of fund-based working capital limits along with presence of healthy and growing unencumbered liquid investments which stood at around ₹561 crore as on March 31, 2022. Furthermore, the company has a practice to invest maximum up to 15% of its corpus in equity-oriented funds and the balance is invested in debt funds which majorly includes G-secs and bonds with high credit ratings. The company mainly utilises non-fund-based limits in the form of bank guarantees in its normal course of business, the average utilisation of which (including long-term performance guarantees) remained high at around 95% during the trailing 12 months ended June 2022. However, it has recently got enhanced its non-fund based working capital limits by ₹150 crore which is expected to result in decline in overall utilisation of its non-fund based limits going forward. VTL's liquidity is further underpinned by its healthy current ratio of 4.76x as on March 31, 2022.
Furthermore, with a comfortable capital structure, VTL has sufficient gearing headroom to raise additional debt for its capex/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 rating 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. Significant increase in its TOI along with 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, cold rolled grain oriented (CRGO) steel and transformer oil. The prices of these raw materials are highly volatile in nature as they are linked to prices in global market. This exposes VTL's profitability to raw material price fluctuation risks since majority of the company's orders are fixed price in nature. Also, with global manufacturing of CRGO steel concentrated amongst 15 major suppliers and 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 imports 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 increased during the last one-year period. However, the company was able to safeguard itself from any major impact on the back of timely revision in prices of its products. However, high volatility in prices of its key input materials continues to remain a threat on the profitability of the company.

High 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 bank guarantees (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 3 to 6 years. However, there has not been any instance of invocation of such guarantee extended by the company over last 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 / 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 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 release of retention money. Financial bank guarantees are required by it for availment of mobilisation advances. However, large part of the guarantees issued by the company is PBGs.

Analytical approach: Standalone

Applicable criteria
Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-financial sector
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the company
Promoted by 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 refineries, 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, 2022.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
Total operating income	692.55	1,127.58	269.74
PBILDT	77.87	139.37	35.87
PAT	112.22	132.84	26.68
Overall gearing (times)	0.04	0.07	NA
Interest coverage (times)	129.32	174.91	149.46

A: Audited; UA: Unaudited; NA: Not available; Financials are classified as per CARE Ratings' standards.

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 instruments/facilities: Not applicable

Complexity level of the various instruments rated for this company: Annexure-3

Annexure-1: Details of 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
Non-fund-based - LT/ ST-Bank guarantee		-	-	-	282.50	CARE AA; Stable / CARE A1+
Fund-based - LT-Cash credit		-	-	-	10.00	CARE AA; Stable

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 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	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	282.50	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (01-Sep-21)	1)CARE AA; Stable / CARE A1+ (07-Jul-20)	1)CARE AA; Stable / CARE A1+ (07-Oct-19)
2	Fund-based - LT-Cash credit	LT	10.00	CARE AA; Stable	-	1)CARE AA; Stable (01-Sep-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA; Stable (07-Oct-19)

*Long term/Short term

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-4: Bank lender details for this company

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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