

IMP Powers Limited

August 27, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	374.53	CARE BB+; Stable (Double B Plus ; Outlook: Stable)	Revised from CARE BBB- ;Stable(Triple B Minus; Outlook: Stable)
Short-term Bank Facilities	130.00	CARE A4+ (A Four plus)	Revised from CARE A3 (A Three)
Total facilities	504.53 (Rs. Five hundred four crore and fifty three lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of IMP Powers Limited (IPL) factors in weaker than the envisaged financial performance for FY19 and Q1FY20 mainly on account of deferment of orders translating into high operating cycle and stretched liquidity. The ratings continue to be tempered by moderate financial risk profile, slowdown witnessed in industry ordering activity in the near term, weakened liquidity position as denoted by high utilization of working capital limits coupled with working capital nature of operations.

The rating constraints are, however offset by established track record of company, risk mitigation measures undertaken by the management in terms of higher proportion of LC backed orders coupled with reputed clientele, improved exports (on year-on-year basis), healthy order book position as on July 31, 2019 and past track record of promoters for fund infusion in the company.

Going forward, ability of the company to increase its scale of operations, maintain profit margins and to improve the capital structure and debt protection metrics by efficiently managing its working capital requirements are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate financial risk profile: IPL has moderate financial risk profile marked by leveraged capital structure combined with moderate coverage indicators. The capital structure of IPL continues to be leveraged with overall gearing at 1.93x as of March 31, 2019. The interest coverage ratio also moderate at 1.29x for FY19 (FY18:1.53x) due to high utilization of working capital facilities. During FY19, total revenue declined by 7.4% on account of deferment of orders by key customers (mainly State transmission utilities [State TRANSCOs]). Also, PAT margin reduced from 1.22% in FY18 to 0.47% in FY19. The deterioration in financial performance continued in Q1FY20 as well. The company incurred net loss of Rs. 7.2 crore on total revenue of Rs. 69.17 crore during this period.

Working capital intensive nature of operations: Operating cycle deteriorated from an average of 93 days during FY18 to an average of 128 days for FY19. Operating cycle is elongated due to the slow realisation of receivables particularly from State TRANSCOs (which are not LC backed). Going forward, as a risk mitigation, the company is reducing its exposure to State TRANSCOs and targeting LC backed private sector orders. Average working capital utilization also remains high at 87% for the past 12 months ending July 2019.

Presence of competition within the industry: The electric equipment manufacturing industry is characterized by many small and fragmented transformer manufacturers resulting in competition.

Susceptibility of its profit margins to volatility in raw material prices: Prices of major raw materials such as copper, cold rolled grain oriented (CRGO) steel and transformer oil, which form a majority of the overall raw material cost for transformer manufacturing, are highly volatile in nature and are linked to prices in the international market. A disruption in supply of any of its raw materials can lead to significant increase in cost. However, IPL's outstanding orders have price variation clause, which reduces the impact of this price volatility to a large extent.

Key Rating Strengths

Established track record of operations: IPL, with over five decades of experience, is in the business of manufacturing of power transformers ranging from 1 MVA to 315 MVA, upto 400 kV class. IPL has about 30,000 installations in India and its

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

products are present in 26 countries. It caters to a wide spectrum of transformer users in a variety of industries such as petrochemicals, automobile, steel, power, railway applications, mining, etc.

Healthy order book leading to revenue visibility: IPL's outstanding order book position was healthy at Rs 451 crore (i.e., 1.1x of FY19 total operating income) as on July 31, 2019 to be executed over 12-15 months.

Reputed Clientele: The current book comprises State TRANSCOs and various reputed domestic EPC contractors.

Liquidity position: The liquidity position of IPL is weak as reflected by high utilization of working capital limits (both fund based and non-fund based) and thin free cash balance as on March 31, 2019 which translates into minimal cushion to manage elongated payment from its customers.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the company:

Incorporated in 1961 and promoted by Mr. Ramnivas R. Dhoot, IMP Powers Ltd. (IPL) is engaged in the manufacturing of an entire range of transformers. The company has its manufacturing facility at Silvassa, for manufacturing of transformers ranging from 1 MVA to 315 MVA, up to 400 kV Class with an installed capacity of 16,000 MVA (Mega Volt-Ampere) as on March 31, 2019 (P.Y: 15,000 MVA). IPL incorporated a subsidiary company 'IMP Energy Limited' (IEL) in August 2012. IEL is engaged in complete EPC work of small hydro power (SHP) business. The Company sets up small hydro power plants of upto 5 MW capacity and does the entire EPC work.

Brief Financials (Rs. In Crores)	FY18 (A)	FY19(A)*
Total operating income	446.56	413.33
PBILDT	41.17	36.77
PAT	5.46	1.96
Overall gearing (times)**	1.68	1.93
Interest coverage (times)	1.53	1.29

A: Audited, *Abridged numbers

**including Corporate guarantee given to loans of Rs. 22 crore of IMP Energy Private Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	March 2023	34.00	CARE BB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	90.00	CARE A4+
Fund-based - LT-Cash Credit	-	-	-	88.66	CARE BB+; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	251.87	CARE BB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	40.00	CARE A4+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	34.00	CARE BB+; Stable	-	1)CARE BBB-; Stable (08-Oct-18) 2)CARE BBB-; Stable (31-Aug-18)	1)CARE BB+; Stable (06-Mar-18)	1)CARE BBB- (07-Dec-16) 2)CARE BBB- (12-Apr-16)
2.	Non-fund-based - ST-Letter of credit	ST	90.00	CARE A4+	-	1)CARE A3 (08-Oct-18) 2)CARE A3 (31-Aug-18)	1)CARE A4+ (06-Mar-18)	1)CARE A3 (07-Dec-16) 2)CARE A3 (12-Apr-16)
3.	Fund-based - LT-Cash Credit	LT	88.66	CARE BB+; Stable	-	1)CARE BBB-; Stable (08-Oct-18) 2)CARE BBB-; Stable (31-Aug-18)	1)CARE BB+; Stable (06-Mar-18)	1)CARE BBB- (07-Dec-16) 2)CARE BBB- (12-Apr-16)
4.	Non-fund-based - LT-Bank Guarantees	LT	251.87	CARE BB+; Stable	-	1)CARE BBB-; Stable (08-Oct-18) 2)CARE BBB-; Stable (31-Aug-18)	1)CARE BB+; Stable (06-Mar-18)	1)CARE BBB- (07-Dec-16) 2)CARE BBB- (12-Apr-16)
5.	Non-fund-based - ST-Letter of credit	ST	40.00	CARE A4+	-	1)CARE A3 (08-Oct-18) 2)CARE A3 (31-Aug-18)	1)CARE A4+ (06-Mar-18)	1)CARE A3 (07-Dec-16) 2)CARE A3 (12-Apr-16)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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