

IMP Powers Ltd

October 08, 2018

Ratings

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

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of IMP Powers Limited (IPL) takes into consideration the improvement in operating income and profitability of the company during FY18 & Q1FY19. The rating also factors in infusion of funds by the promoter group through proposed convertible warrants and revenue visibility on the back of improved outstanding order book position. The ratings also continue to factor in established track record and reputed clientele.

The rating strengths are however tempered by moderate financial risk profile, working capital intensive nature of operations, susceptibility of its profit margins to volatility in raw material prices along with intense competition within the industry.

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 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 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.

Improved turnover and profitability: IPL's total operating income and PAT improved by 13% and 61% at Rs.446.56 crore and Rs.5.46 crore in FY18 as compared to previous year. For Q1FY19, IPL reported a PAT of Rs.0.34 crore on an operating income of Rs.86.21 crore as against loss of Rs.6.32 crore on a turnover of Rs.55.18 crore in Q1FY18.

Promoter infusion for proposed convertible warrants: The promoters have brought in Rs.6.33 crore towards proposed issue of convertible warrants which will improve the networth and ultimately liquidity to an extent.

Healthy order book leading to revenue visibility: IPL's outstanding order book position exhibited an improvement to Rs. 639 crore (i.e., 1.4x of FY18 total operating income) as on August 24, 2018 as compared to Rs.600 crore as on January 31, 2018 to be executed over FY19.

Reputed Clientele: Domestically, power utilities and power transmission companies are key customers of the company including various State Electricity Boards (SEBs) and Public Sector Units (PSUs).

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 1.55x as of March 31, 2018. The interest coverage ratio is moderate at 1.53x for FY18 (FY17:1.46x) due to full utilization of working capital facilities.

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

Working capital intensive nature of operations: Operating cycle marginally deteriorated from an average of 85 days during FY17 to an average of 93 days for FY18. Operating cycle is elongated due to the slow realisation of receivables particularly from State Electricity Boards (SEBs) and Public Sector Units (PSUs) clients. Thus, working capital facilities are utilized almost fully (average utilization for last 12 months ended August 2018 is 93%).

Intense competition within the industry: The electric equipment manufacturing industry is characterized by many small and fragmented transformer manufacturers causing intense competition thus affecting margins.

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 significant portion of IPL's outstanding orders have price variation clause, which reduces the impact of this price volatility to a certain extent.

Industry Prospects

The demand for electricity is rising with the growing population and industrialization which is escalating demand for transformers. The Indian power and distribution transformer market is forecast to reach \$2.9 billion by 2022. Industry believes that reforms such as 'Power for All' and UDAY would drive demand and Indian power transformer market is expected to grow at a CAGR of 10 per cent between 2018 and 2022. Cold rolled grain oriented (CRGO) laminated electrical steel which is one of the major raw materials for transformers, as not being manufactured in India, has to be imported. However, there are no major supply constraints witnessed and the price rise, if any, is likely to be passed on to the customers mainly due to majority of contract having price variation clause. The industry is marred by high working capital intensity and the hardening of interest rate which could contract the net margins of players. However, rapid growth in metros, airports and others infrastructure projects and increasing emphasis on power and infrastructure sector by the government, is likely to augur well for the players operating in this industry in the medium term.

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 15,000 MVA (Mega Volt-Ampere) as on March 31, 2018 (P.Y: 14,000 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. IEL is currently executing 12 projects out of which 3 projects are expected to be commissioned during FY19.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	393.90	446.56
PBILDT	35.46	41.17
PAT	3.39	5.46
Overall gearing (times)	1.65	1.55
Interest coverage (times)	1.46	1.53

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of 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	-	-	Mar 23	34.00	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	88.66	CARE BBB-; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	251.87	CARE BBB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	90.00	CARE A3
Non-fund-based - ST-Letter of credit	-	-	-	40.00	CARE A3

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	34.00	CARE BBB-; Stable	1)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)	1)CARE BBB- (10-Aug-15) 2)CARE BBB- (14-Apr-15)
2.	Non-fund-based - ST-Letter of credit	ST	90.00	CARE A3	1)CARE A3 (31-Aug-18)	1)CARE A4+ (06-Mar-18)	1)CARE A3 (07-Dec-16) 2)CARE A3 (12-Apr-16)	1)CARE A3 (10-Aug-15) 2)CARE A3 (27-Apr-15) 3)CARE A3 (14-Apr-15)
3.	Fund-based - LT-Cash Credit	LT	88.66	CARE BBB-; Stable	1)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)	1)CARE BBB- (10-Aug-15) 2)CARE BBB- (27-Apr-15) 3)CARE BBB- (14-Apr-15)
4.	Non-fund-based - LT-Bank Guarantees	LT	251.87	CARE BBB-; Stable	1)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)	1)CARE BBB- (10-Aug-15) 2)CARE BBB- (27-Apr-15) 3)CARE BBB- (14-Apr-15)
5.	Non-fund-based - ST-Letter of credit	ST	40.00	CARE A3	1)CARE A3 (31-Aug-18)	1)CARE A4+ (06-Mar-18)	1)CARE A3 (07-Dec-16) 2)CARE A3 (12-Apr-16)	-

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