

RTS Power Corporation Limited

November 11, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term/ Short-term Bank Facilities	-	-	Reaffirmed at CARE BB+;Stable/A4+ and withdrawn
Short-term Bank Facilities	-	-	Reaffirmed at CARE A4+ and withdrawn
Total facilities	-		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of RTS Power Corporation Ltd. (RTS), continue to remain constrained on account of its financial risk profile marked by fluctuating profitability margins, moderate debt coverage indicators and working capital intensive nature of operations. The ratings are further, constrained on account of its presence in the highly competitive and fragmented transformers and cable and conductor industry along with susceptibility of the company's profitability to fluctuations in the raw material prices.

The above constraints outweigh the benefits derived from the extensive experience of the promoters with its established track record of operations with moderate scale of operations and capital structure.

CARE has **reaffirmed** the outstanding ratings of '**CARE BB+; Stable/CARE A4+**' [Double B Plus; Outlook: Stable/ A Four Plus] assigned to the bank facilities of RTS Power Corporation Ltd. However, CARE has simultaneously **withdrawn the ratings** with immediate effect on the request of RTS and 'No Objection Certificates' received from the banks that have extended the facilities rated by CARE.

Detailed description of the key rating drivers

Key Rating Weaknesses

Fluctuating albeit healthy profitability

PBILDT margin of the company have exhibited fluctuating trend during past three financial years (FY17-19) mainly on account of its presence in the highly competitive tender driven industry coupled with different margins earned on the orders received across its transformers range/grade as well as on other product profile including cable and conductors as well as semi-finished goods. The PBILDT margin improved from 7.61% in FY18 to 9.27% in FY19. In line with the PBILDT margin, the PAT margin also improved from 1.97% in FY18 to 2.13% in FY19 due to the same reason.

Moderate debt coverage indicators

The PBILDT interest coverage deteriorated from 1.88 times in FY18 to 1.69 times in FY19 mainly due to higher interest cost in FY19. The total debt to GCA improved from 5.79 times in FY18 to 4.16 times in FY19 due to increase in GCA.

Liquidity Position: Stretched

RTS's operations are highly working capital intensive in nature supported largely by bank borrowings and funds from promoters. Further, its operating cycle stood elongated at 99 days in FY19 though the same decreased from 111 days in FY18 due to better inventory management as well as improvement in collection period. Further, the current ratio and quick ratio stood modest at 1.60 times and 1.14 times respectively as on March 31, 2019.

Highly competitive and fragmented transformers, cable and conductor industry along with susceptibility of profitability to fluctuations in the raw material prices

Transformer as well as cable and conductors industry is highly fragmented with presence of many organized and unorganized players. Furthermore, due to the low entry barriers owing to low capital requirement and readily available technology, there are large numbers of organized and unorganized players present in the manufacture of both the segment.

The key raw materials for transformer manufacturing are copper, silicon steel, aluminium, Cold Rolled Grain Oriented (CRGO) steel core, transformer oils and transformer tanks while that for cable and conductors include aluminium rod, steel, PVC compound among others constituting approximately 70%-80% of TOI. The prices of these raw materials are governed by demand-supply dynamics and had shown huge fluctuations in past few years. RTS is exposed to raw material price risk to the extent of loss in inventory value as the production process is long and it has to keep good amount of inventory. However, contracts from SEB's are suitably guarded against increase in the raw material prices owing to built-in price escalation clause, protecting the operating margins to a certain extent.

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

Key Rating Strengths

Extensive experience of promoters in industry

Mr. Rajendra Bhutoria and his cousin Mr. Abhay Bhutoria are the key promoters of RTS who have extensive experience of more than three decades in the industry and together look after the overall affairs of the company. Further, the directors are supported by a team of managerial personnel including Mr. R.L. Saini who looks after the finance and administrative function and technical team having relevant experience in their respective fields.

Established track record of operations with diversified revenue stream and reputed clientele base

The company had set up its first plant at Jaipur for manufacturing transformers in 1971 and has, since 2006, forayed into manufacturing of cables and conductors as well. Presently, RTS manufactures both power and distribution transformers as well as cables and conductors. Further, the company also manufactures semi-finished goods. RTS is an ISO 9001 Certified company and an approved vendor for all State Electricity Utilities in India as well as caters to various reputed EPC players and transformer manufacturers.

Moderate scale of operations and capital structure

The scale of operations of RTS as indicated by TOI grew by around 22% to Rs.258.73 crore in FY19. Further, the company has reported TOI of Rs.44.97 crore with PBILDT and PAT of Rs.6.54 crore and Rs.3.46 crore respectively in Q1FY20. Capital structure continued to remain moderate with an overall gearing of 0.28 times as on March 31, 2019, improved from 0.33 times as on March 31, 2018.

Analytical approach: Not Applicable

Applicable criteria

[Policy on Withdrawal of ratings](#)

[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

RTS Power Corporation Ltd. (RTS) is a Kolkata based public limited company and is the flagship company of Kolkata based 'Bhutoria Group'. RTS was incorporated in 1947 as Bhanwarlal Bhutoria Pvt. Ltd. Later on, the company's constitution was changed to public limited in 1984 and subsequently, the name was changed to the present name, RTS, in 1994. The company got listed in 1995.

RTS is involved in the manufacturing of Single and Three phase Power Transformers (including Extra high voltage) having capacity 3.15 MVA to 50 MVA and Distribution transformers (including Dry-type transformers) having capacity 5 KVA to 3150 KVA as well as cables (XLPE/PVC Insulated Power & Control Cable, Aerial Bunched cables, railway signaling cables) and conductors (AAC, AAAC, ACSR) at its different manufacturing plants located at Jaipur (4 units), Howrah (1 unit) and Agra (1 unit).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	211.78	258.73
PBILDT	16.11	24.00
PAT	4.18	5.51
Overall gearing (times)	0.33	0.28
Interest coverage (times)	1.88	1.69

A: Audited

Status of non-cooperation with previous CRA: Nil

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
Fund-based - LT/ ST-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC	-	-	-	0.00	Withdrawn

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.	Fund-based - LT/ ST-Cash Credit	LT/ST	-	-	-	1)CARE BB+; Stable / CARE A4+ (23-Nov-18)	1)CARE BB; Stable / CARE A4 (28-Mar-18)	-
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	-	-	-	1)CARE BB+; Stable / CARE A4+ (23-Nov-18)	1)CARE BB; Stable / CARE A4 (28-Mar-18)	-
3.	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)CARE A4+ (23-Nov-18)	1)CARE A4 (28-Mar-18)	-
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	-	-	1)CARE BB+; Stable / CARE A4+ (23-Nov-18)	1)CARE BB; Stable / CARE A4 (28-Mar-18)	-

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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