

RTS Power Corporation Limited

November 23, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings¹	Rating Action
Long term/Short term bank facilities	83.07 (reduced from 84.07)	CARE BB+; Stable/ CARE A4+ (Double B Plus; Outlook: Stable/A Four Plus)	Revised from CARE BB; Stable/CARE A4 (Double B; Outlook: Stable/A Four)
Short term bank facilities	40.43	CARE A4+ (A Four Plus)	Revised from CARE A4 (A Four)
Total facilities	123.50 (Rupees One hundred twenty three crore and fifty lakh only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of RTS Power Corporation Limited (RTS) takes into account significant growth in its scale of operations during FY18 (refers to the period April 1 to March 31) as well as improvement in its debt coverage indicators and operating cycle during FY18.

The ratings, however, 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 despite presence of price variation clause from contracts secured by SEB's which protect the operating margins to a certain extent.

The above constraints outweigh the benefits derived from the extensive experience of the promoters with its established track record of operations, its diversified revenue stream as well as reputed clientele base, its healthy order book position providing medium term revenue visibility and moderate capital structure.

RTS's ability to achieve envisaged level of revenue and profitability along with improvement in its capital structure as well as efficient working capital management shall be the key rating sensitivities.

Detailed description of the key rating drivers**Key Rating Weakness****Fluctuating albeit moderate profitability:**

PBILDT margin of the company have exhibited fluctuating trend during past three financial years (FY16-18) 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. During FY18, PBILDT margin of the company decreased on account of higher other expenses mainly pertaining to liquidated damages along with higher cost of raw materials consumed as well as selling expenses (mainly packing and freight cost). Despite decline in operating profit margin, PAT margin improved by 69 bps to 1.90% on the back of proportionately lower depreciation and interest expenses.

Moderate debt coverage indicators:

The debt coverage indicators of the company has exhibited improvement from FY17 level albeit remained moderate with total debt to GCA of 13.78 times as on March 31, 2018, improved from 18.80 times as on March 31, 2017, mainly on account of higher proportionate increase in its GCA level vis-à-vis total debt. Further, interest coverage also improved to 1.88 times during FY18 as against 1.53 times in FY17 owing to proportionately lower interest expenses.

Working capital intensive nature of operations:

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 111 days in FY18 though the same decreased from 177 days in FY17 due to better inventory management as well as improvement in collection period with an increase in scale of operations. Further, the average utilisation of fund-based working capital limit stood high with almost full utilization during last 12 months period ended September, 2018 with free cash and bank balance of Rs.1.02 crore as on March 31,

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

2018. Further, the current ratio and quick ratio stood moderate at 1.34 times and 1.01 times respectively as on March 31, 2018.

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:

Transformer as well as cable and conductors industry is highly fragmented with presence of many organised and unorganised 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 75%-77% 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.

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.

Significant growth in its scale of operations in FY18 with healthy order book position:

The scale of operations of RTS as indicated by TOI grew significantly by around 94% to Rs.211.51 crore in FY18 owing to higher execution/supply of transformers of varying capacities supported by increased demand of its product profile factored by its established position in the industry. Further growth was also driven by increase in revenue generated from its cable and conductors segment owing to higher order secured and executed in H2FY18 as well higher other operating income. Further, the company has reported TOI of Rs.119.23 crore with PBILDT and PAT of Rs.9.46 crore and Rs.2.64 crore respectively in H1FY19.

Moreover, as on September 01, 2018 RTS has an outstanding order book of Rs.189.94 crore forming 0.90 times of FY18's TOI with 77% of its present order book pertaining to supply of different range of transformers (including both power and distribution) which are likely to be executed within 12 months, while rest of the order book is pertaining to its cables and conductors segment, majority of which are to be executed within 3-4 months thereby providing medium-term revenue visibility.

Moderate capital structure

Owing to its high net worth base of Rs.53.37 crore, its capital structure continued to remain moderate with an overall gearing of 1.49 times as on March 31, 2018, although deteriorated from 1.15 times as on March 31, 2017, mainly on account of increase in total debt level which was attributed to higher utilization of working capital bank borrowings (including bill discounting against letter of credit) along with increase in LC backed creditors as on balance sheet date to support its increased working capital requirement factored by higher sales reported in Q4FY18.

Outlook on Industry

The growth of the electrical equipment sector primary depends on government policies as majority of transformer companies are highly dependent on investments planned by union and state governments in Transmission & Distribution (T&D) segment. With huge investments proposed in power sector, the transformers and cable and conductors market in India is slated for better growth.

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

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). The company is also involved in power generation from its wind mills located at Dhule, Maharashtra (1.25 MW capacity) and Barmer, Rajasthan (0.60 MW capacity) which it sells to the respective state power distribution utilities. Apart from these, the interests of Bhutoria Group include Cold Storages, Real Estate and Ware Housing.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	108.80	211.51
PBILDT	9.65	15.84
PAT	1.31	4.01
Overall gearing (times)	1.15	1.49
Interest coverage (times)	1.53	1.88

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: None

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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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 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	-	-	-	22.74	CARE BB+; Stable / CARE A4+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	52.53	CARE BB+; Stable / CARE A4+
Non-fund-based - ST-Letter of credit	-	-	-	40.43	CARE A4+
Non-fund-based - LT/ ST-BG/LC	-	-	-	7.80	CARE BB+; Stable / 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 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.	Fund-based - LT/ ST-Cash Credit	LT/ST	22.74	CARE BB+; Stable / CARE A4+	-	1)CARE BB; Stable / CARE A4 (28-Mar-18)	-	-
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	52.53	CARE BB+; Stable / CARE A4+	-	1)CARE BB; Stable / CARE A4 (28-Mar-18)	-	-
3.	Non-fund-based - ST-Letter of credit	ST	40.43	CARE A4+	-	1)CARE A4 (28-Mar-18)	-	-
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	7.80	CARE BB+; Stable / CARE A4+	-	1)CARE BB; Stable / CARE A4 (28-Mar-18)	-	-

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