Transformers & Rectifiers (India) Limited

July 09, 2020

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long term bank facilities	40.50	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB+; Stable(Triple B Plus; Outlook: Stable)
Short term bank facilities	150.00	CARE A3 (A Three)	Revised from CARE A3+ (A Three Plus)
Long-term/Short-term bank facilities	925.00	CARE BBB; Stable/ CARE A3 (Triple B; Outlook: Stable/ A Three)	Revised from CARE BBB+; Stable/ CARE A3+(Triple B Plus; Outlook: Stable/ A Three Plus)
Total Facilities	**1,115.50 (Rupees One thousand one hundred fifteen crore and fifty lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Transformers and Rectifiers (India) Limited (TRIL) factors reduction in its scale of operations during FY20 (FY refers to the period April 1 to March 31) along-with losses incurred by it during Q4FY20 (FY refers to the period April 1 to March 31) and elongation in its operating cycle.

The ratings, however, continue to draw strength from its established position as one of the leading domestic transformer manufacturers, its strong technological tie-ups, well-established client base, moderate revenue visibility and stable demand outlook for transformer industry. The ratings also take cognizance of infusion of unsecured loans of Rs.30.00 crore by the promoters during FY20 to support TRIL's working capital requirement.

The ratings, however, continue to be constrained by its large working capital requirement, moderately leveraged capital structure and exposure to volatile raw material prices. The ratings also factor further moderation in its already low profitability margins during FY20 along-with weakened debt coverage indicators with expected moderation in its scale of operation during FY21 on the back of Covid-19 induced lockdown.

CARE also takes note of the company availing the moratorium granted by its lenders as a Covid relief measure (as permitted by the Reserve Bank of India) for a period of six months from March 2020 to August 2020 for its debt obligations, including interest on working capital facilities.

Key Rating Sensitivities

Positive Factors

- Growth in its TOI to more than Rs.850 crore with improved PBILDT margin of more than 11% on sustained basis
- Reduction in its debtor's collection period to below 120 days on a sustained basis thereby leading to significant contraction in its working capital cycle
- Timely execution of its existing orders along with procurement of new orders to improve revenue visibility

Negative Factors

- Lower than 1% PAT margin on a sustained basis
- Inability to reduce its debtor's collection period below 150 days leading to pressure on its working capital management
- Inability to improve its debt coverage indicators marked by Interest coverage of more than 1.50 times and Total Debt/PBILDT of less than 5 times

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

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of operations along with strong technological tie-ups

TRIL is one of the leading domestic transformer manufacturers with a wide range of transformers. TRIL has technological tie-up with Zaporozhtransformator (ZTR), Ukraine for manufacturing of 765 kilo volt (KV) class transformers, with Fuji Electrical Co. Ltd (Fuji), Japan for manufacturing of 420 KV class transformers and up to 765 KV class shunt reactors, with Jiangsu Jingke Smart Electrical Co. Ltd. for manufacturing and supply of switch gear and switch panels.

Well-established client base

TRIL has long standing relationship with various reputed clients in the power and T & D industry. TRIL's major sales were made to Central & State power utilities & PSUs which accounted for ~56% of total sales with balance sales of ~44% being towards private players during FY20. The proportion of sales to private players has increased from 35% during FY19 to 44% during FY20. TRIL's clientele is moderately concentrated with ~66% of total sales during FY19 being concentrated to top ten customers. However, since majority of these customers are central & state utilities and PSUs, the payment credit risk is expected to be limited although problem of delayed collection persists. TRIL also exports transformers to countries such as United Kingdom, Canada, United Arab Emirates, South Africa, Saudi Arabia, Indonesia, Australia, Russia and Nigeria.

Moderate revenue visibility from available order book

As on May 31, 2020, the outstanding order book of TRIL stood at ~Rs.790 crore (Rs.775 crore as on June 30, 2019) translating into 1.10x of its FY20 net sales, providing moderate revenue visibility. With a view to manage orders within budgeted costs in the backdrop of volatile raw material prices and competitive industry scenario, TRIL has generally been selective in bidding for orders by incorporating price escalation clauses in most of the agreements.

Stable long-term demand outlook; albeit susceptibility to cyclical demand and challenging medium-term scenario due to Covid-19 pandemic

Government plans to add 93 GW of power generation capacity by 2022 would require a strong power evacuation infrastructure base in the country and this shall fuel the demand for Transmission & Distribution (T&D) equipment. Government's focus on rural electrification, reduction in T&D losses and its efforts to increase coal availability and green energy market is expected to result in stable demand for T&D players in near to medium term. Around 3 lac MVA transformation capacity is expected to be added in the 13th five-year plan (FYP), i.e. till FY22, out of which around 69% was added till 9MFY20, which resulted in double digit growth in the industry to over Rs.16,440 crore. While there was some de-growth in the production volumes for transformers in FY20 due to delays in order finalization and lack of availability of proper funding, overall, going forward, expected addition of balance transformation capacity is expected to augur well for the manufacturers of T&D equipment including transformers. However, company remains susceptible to cyclicality associated with capital goods industry which forms sizeable client base for the company, along with weak overall economic growth in the medium-term induced largely by the outbreak of Covid-19 pandemic.

Liquidity: Adequate

Liquidity of TRIL was supported by infusion of Rs.30 crore of unsecured loans by promoters during FY20. Utilization of its fund based working capital limits stood almost full as of June 2020, however it has received Rs.10.36 crore of special purpose term loan (amidst Covid-19) from its lenders for duration of 2 years with 6 months' moratorium which is expected to help in managing its working capital requirement. Further, TRIL has also availed 6 months' moratorium on its working capital borrowing & term loans servicing for the period of March 2020 to August 2020 resulting in lower debt servicing requirement for FY21.

Key Rating Weaknesses

Decline in scale of operations along with low profitability margin

During FY20, TOI of TRIL declined by ~17%, primarily on account of Covid outbreak towards the end of Q4FY20, wherein final inspection of transformers by TRIL's clients got delayed leading to lower than expected sales in the month of March 2020. Although, TRIL's PBILDT margin improved from 7.97% during FY19 to 9.38% during FY20 mainly due to lower raw material cost, however, its PAT margin deteriorated to 0.15% during FY20 from 0.59% during FY20 on the back of continued high finance cost with lower absolute PBILDT. Further, TRIL's scale of operations is expected to moderate during FY21 on the back of industry slowdown due to Covid-19 induced lockdown.

Moderate leverage and debt coverage indicators
The capital structure of TRIL remains moderately leveraged marked by an overall gearing of more than unity i.e. 1.18 times in FY20 (P.Y. 1.14 times). Furthermore, on the back of subdued profitability, its debt coverage indicators too exhibited moderation marked by decline in its interest coverage to 1.12 times during Q4FY20 from 1.49 times during FY19. Also, its Total debt/GCA and Total Debt/PBILDT stood high at 18.88 years and 5.84 times respectively as on March 31, 2020.

Exposure to volatile raw material prices
Prices of raw materials such as copper and cold rolled grain oriented (CRGO) steel which forms around 60% of the total raw material cost are volatile due to their global linkages. However, significant portion of TRIL's outstanding orders have price variation clause, which reduces the impact of this price volatility to a certain extent, however overall profitability of the company remains exposed to volatile raw material prices.

Large working capital requirement with further elongation in operating cycle
Industrial transformers are make-to-order product wherein clients provide the specifications based on which production may take one month to several months depending on the complexity and size of transformers, which leads to high work-in-progress inventory. Further, during FY20, 56% of TRIL's sales were to state power sector utilities which led to longer collection period. Also, since the sale of transformers is skewed more towards Q4 of a financial year, whereby generally sales in Q1 remain low while sale in Q4 is highest, it results in large receivables at year end. TRIL's already long operating cycle of 155 days in FY19 has further elongated to 198 days in FY20 on the back of higher collection period. Further, due to Covid-19 lockdown, financial health of state power sector utilities has worsened leading to expected higher collection period during FY21. TRIL relies heavily on bank borrowings to meet its working capital requirement. Further, TRIL is required to give performance bank guarantee for the delivered transformers for a period ranging from 3 year to 7 years leading to high requirement for bank guarantees.

Analytical Approach: Consolidated
TRIL is a corporate parent company with substantial business operations in the manufacturing of transformers. TRIL has six subsidiaries engaged in products or services related to the manufacturing of transformers. Further, large part of the bank facilities of these subsidiaries are guaranteed by TRIL. Hence, a consolidated view of TRIL and its subsidiaries has been considered for credit assessment.
The list of subsidiaries considered in its consolidation is shown in ***Annexure-3***

Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Liquidity Analysis of Non-financial sector
Financial ratios – Non-Financial Sector
Rating Methodology: Consolidation and Factoring Linkages in Ratings

About the Company
Promoted by Mr Jitendra Mamtora in 1994, Transformers & Rectifiers (India) Ltd (TRIL) is engaged in manufacturing of electrical transformers and reactors, which find application in power transmission & distribution and industrial/commercial sectors. TRIL is amongst the largest domestic transformer manufacturers with an aggregate installed capacity of 33,200 mega volt ampere (MVA) as on March 31, 2019 at its three units located at Odhav (1,200 MVA), Changodar (12,000 MVA) and Moraiya (20,000 MVA) in Gujarat.
TRIL is present in the entire range of transformers, including power transformers up to 500 MVA, 1150 KV class and distribution transformers up to 5 MVA, 33 KV class. It also manufactures induction, electric arc furnace and rectifier transformers.

Brief Financials - Consolidated (Rs. Crore)	FY19 (A)	FY20 *
Total operating income	860.33	716.80
PBILDT	68.58	67.22
PAT	5.10	1.05
Overall Gearing (times)	1.14	1.18
Interest coverage (times)	1.49	1.47

A: Audited;
**as per published abridged financial results on the stock exchange*

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 Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Letter of credit	NA	NA	NA	150.00	CARE A3
Fund-based - LT/ ST-Cash Credit	NA	NA	NA	250.00	CARE BBB; Stable / CARE A3
Non-fund-based - LT/ ST-Bank Guarantees	NA	NA	NA	675.00	CARE BBB; Stable / CARE A3
Term Loan-Long Term	NA	NA	September 2022	40.50	CARE BBB; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-Letter of credit	ST	150.00	CARE A3	-	1)CARE A3+ (05-Sep-19)	1)CARE A3+ (09-Aug-18)	1)CARE A3+ (28-Mar-18) 2)CARE A2 (22-Sep-17) 3)CARE A2 (05-Jul-17)
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	250.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB+; Stable / CARE A3+ (05-Sep-19)	1)CARE BBB+; Stable / CARE A3+ (09-Aug-18)	1)CARE BBB+; Stable / CARE A3+ (28-Mar-18) 2)CARE A-; Stable / CARE A2 (22-Sep-17) 3)CARE A-; Stable / CARE A2 (05-Jul-17)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	675.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB+; Stable / CARE A3+ (05-Sep-19)	1)CARE BBB+; Stable / CARE A3+ (09-Aug-18)	1)CARE BBB+; Stable / CARE A3+ (28-Mar-18) 2)CARE A-; Stable / CARE A2 (22-Sep-17) 3)CARE A-; Stable / CARE A2 (05-Jul-17)
4.	Term Loan-Long Term	LT	40.50	CARE BBB; Stable	-	1)CARE BBB+; Stable (05-Sep-19)	1)CARE BBB+; Stable (09-Aug-18)	1)CARE BBB+; Stable (28-Mar-18) 2)CARE A-; Stable (22-Sep-17) 3)CARE A-; Stable (05-Jul-17)

Annexure-3: List of subsidiaries and joint ventures of TRIL getting consolidated

Name of the Company	Relationship	% holding of TRIL
Trail Infrastructure Ltd.	Subsidiary	100.00%
Transweld Mechanical Engineering Works Ltd.	Subsidiary	100.00%
Savas Engineering Company Pvt. Ltd.	Subsidiary	100.00%
Vortech Pvt. Ltd.	Subsidiary	100.00%
Transpares Ltd.	Subsidiary	51.00%
T&R Jingke Electricals Pvt. Ltd.	Joint Venture	60.00%

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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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