Transformers & Rectifiers (India) Limited

September 05, 2019

Rating

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

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Transformers and Rectifiers (India) Limited (TRIL) continue to derive 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 promoter's commitment to infuse ~Rs.30.00 crore of unsecured loans during FY20 (FY refers to the period from April 1 to March 31) to support TRIL's operations out of which Rs.12.50 crore is already infused during Q1FY20.

The ratings continue to remain constrained on account of 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 FY19 along-with weakened debt coverage indicators with large term debt repayments falling due in FY20.

Ability of TRIL to efficiently manage its working capital requirement while growing its scale of operations along with improvement in its profitability and debt coverage indicators on a sustained basis shall be the key rating sensitivities. Also, timely infusion of the balance committed unsecured loans by promoters would be critical.

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 sold 21,809 MVA transformers during FY19 out of which the major sales were made to Central & State power utilities & PSUs which accounted for ~65% of total sales with balance sales of ~35% being towards private players. The proportion of sales to private players, however, increased during Q1FY20 to 47%. 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. 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 June 30, 2019, the outstanding order book of TRIL stood at ~Rs.775 crore (Rs.765 crore as on June 30, 2018) translating into 0.90x of its FY19 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.

Growth in scale of operations during FY19 with improvement in leverage

TOI of TRIL grew by ~20% during FY19 to Rs.860 crore from Rs.720 crore during FY18, however this growth was primarily attributed to dip in TOI in FY18 due to slower execution of orders during initial phase of GST implementation in FY18

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

which has resulted in spill-over of some pent-up demand to FY19. The sales quantity of TRIL in terms of MVA largely remained at similar level with 21,809 MVA sales in FY19 compared to 21,866 MVA in FY18.
Even with growth in its scale of operations, there was decline in its working capital requirement primarily upon decline in its debtors & inventory which has led to improvement in its overall gearing from 1.29 times as on March 31, 2018 to 1.14 times as on March 31, 2019.

Key Rating Weaknesses

Decline in profitability with moderate debt coverage indicators

There has been steady decline in TRIL's profitability for the last three years ended FY19. Even with ~20% growth in its TOI during FY19, there was decline in its profitability margins marked by PBILDT margins of 7.97% in FY19 compared with 9.64% during FY18. Further, even after recovery of Rs.4.23 crore from the written off debtors of earlier years, its PAT margin stood very low at 0.59% during FY19 compared with 0.87% during FY18. However, PBILDT margin improved to 9.81% during Q1FY20 upon improved product mix though its PAT margins remained low at 0.39%.
On the back of subdued profitability, its debt coverage indicators stood moderate marked by decline in its interest coverage from 1.56 times during FY18 to 1.49 times during FY19. Also, its Total debt/GCA stood high at 14.58 years as on March 31, 2019. However, promoters have articulated to infuse ~Rs.30 crore of unsecured loans in the company during FY20 to support its operations; out of which ~Rs.12.50 crore is already infused during Q1FY20. Timely infusion of balance unsecured loan would be a key rating sensitivity.

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

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, majority of TRIL's sales are to state power sector utilities resulting in longer collection period. Also, since the sales of transformers are skewed more towards Q4 of a financial year, whereby generally sales in Q1 usually remain low and sale in Q4 is highest, it results in large receivables at year end. Due to such large inventory cycle of 108 days and debtors collection cycle of 161 days in FY19, the operations of TRIL remains working capital intensive with an operating cycle of 155 days in FY19. 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.

Liquidity analysis

The operating cycle of TRIL has declined from 168 days during FY18 to 155 days during FY19 and it generated cash flow from operations of Rs.45.83 crore during FY19 which led to its moderate liquidity. The working capital limit utilization remained moderate with average fund based working capital limit utilization for the last 12 months ended June 2019 at ~83% and non-fund based limits i.e. LC and BG average utilization remained at ~66% and ~87% respectively. It had a current ratio of 1.26 times as on March 31, 2019. Further, to improve the liquidity of the company and meet its routine capex & working capital requirements, promoters have planned to infuse ~Rs.30.00 crore of unsecured loans in TRIL during FY20 out of which ~Rs.12.50 crore is already infused during Q1FY20.

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 to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Financial ratios – Non-Financial Sector]
[Rating Methodology-Manufacturing Companies]
[Rating Methodology – 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)	FY18 (A)	FY19 (A)
Total operating income	719.55	860.33
PBILDT	69.38	68.58
PAT	6.24	5.10
Overall Gearing (times)	1.29	1.14
Interest coverage (times)	1.56	1.49

A: Audited;

As per Q1FY20 (Prov.) published results, TRIL has reported a TOI of Rs.174.83 crore with a PAT of Rs.0.68 crore.

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 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.	Non-fund-based - ST-Letter of credit	ST	150.00	CARE A3+	-	1)CARE A3+ (09-Aug-18)	1)CARE A3+ (28-Mar-18) 2)CARE A2 (22-Sep-17) 3)CARE A2 (05-Jul-17)	1)CARE A3+ (31-Dec-16) 2)CARE A3+ (04-Aug-16)
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	250.00	CARE BBB+; Stable / CARE A3+	-	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)	1)CARE BBB+; Positive / CARE A3+ (31-Dec-16) 2)CARE BBB+ / CARE A3+ (04-Aug-16)

							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+ (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)	1)CARE BBB+; Positive / CARE A3+ (31-Dec-16) 2)CARE BBB+ / CARE A3+ (04-Aug-16)
4.	Term Loan-Long Term	LT	40.50	CARE BBB+; Stable	-	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)	1)CARE BBB+; Positive (31-Dec-16) 2)CARE BBB+ (04-Aug-16)

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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