Transformers & Rectifiers (India) Limited

October 07, 2020

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long term bank facilities	23.26 (reduced from 40.50)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	Reaffirmed
Long-term/Short-term bank facilities	799.00 (reduced from 925.00)	**CARE BBB; Stable / CARE A3 (Triple B; Outlook: Stable / A Three)**	Reaffirmed
Short term bank facilities	150.00	**CARE A3 (A Three)**	Reaffirmed
Total Facilities	**972.26 (Rupees Nine Hundred Seventy-Two Crore and Twenty Six Lakhs 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, good revenue visibility from the available order book and stable demand outlook for transformer industry. The ratings also take cognizance of infusion of unsecured loan by the promoters and availment of long term loan backed by personal property of promoters to support TRIL's working capital requirement.

The ratings, however, continue to be constrained by its large working capital requirement due to elevated level of its debtors which has coincided with reduction in its available working capital limits, along with its 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 & Q1FY21 along-with weakened debt coverage indicators 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 majority of its debt obligations, including interest on working capital facilities.

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
- Total Debt/PBILDT going beyond 5 times on a sustained basis

[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 ~53% of total sales during FY20 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.

Good revenue visibility from available order book

As on June 30, 2020, the outstanding order book of TRIL stood at ~Rs.1,111 crore (Rs.775 crore as on June 30, 2019) translating into 1.58x of its FY20 net sales, providing good 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's 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 lakh 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 is supported by infusion of unsecured loan of Rs.18.00 from the promoters and availment of long term loan of Rs.13.00 crore backed by personal property of promoters during FY20. Average utilization of its fund based working capital limits stood high at ~87% for the trailing 12 months ended July 2020 with maximum utilization reaching at ~99%. However, it has received Rs.10.36 crore of special purpose term loan (amidst Covid-19) from its lenders for duration of 2 years including 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 & few term loans servicing for the period of March 2020 to August 2020 resulting in relatively 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 ~18%, 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 7.94% during FY19 to 9.61% during FY20 mainly due to better realization and lower raw material cost, however, its PAT margin deteriorated to 0.15% during FY20 from 0.59% during FY19, on the back of continued high finance cost with lower absolute PBILDT.

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. 1.01 times as on March 31, 2020 (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 16.27 years and 4.99 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 which has coincided with reduction in its available working capital limits

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 lead to high work-in-progress inventory. Since the sale of transformers is skewed more towards Q4 of a financial year, it results in large receivables at year end. TRIL's already long operating cycle of 155 days in FY19 further elongated to 185 days in FY20 on the back of higher collection period due to delay in realization of its debtors in the month of March 2020 due to outbreak of Covid 19 pandemic. Aggregate debtors' level which stood at ~Rs.360 crore (excluding the customer LC discounting) as on March 31, 2020 has largely remained similar at ~Rs.350 crore as on June 30, 2020. Also, debtor's exceeding 180 days stood at ~Rs.106 crore as on June 30, 2020 whereby TRIL is now expecting major realization to happen in Q2FY21 & Q3FY21 which should help the company to improve its liquidity. However, this is contingent upon the financial health of state power sector utilities which could be impacted due to Covid-19.

TRIL relies heavily on bank borrowings to meet its working capital requirement whereby its available fund based working capital limits got reduced in the last one year putting pressure on its working capital management. Similarly TRIL is required to give performance bank guarantee for the delivered transformers for a period ranging from 3 to 7 years leading to high requirement for bank guarantees whereby also its available non-fund based working capital limits has been reduced.

Analytical Approach: Consolidated

TRIL is the 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-4***

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, 2020 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 (A)
Total operating income	859.74	704.15
PBILDT	68.29	67.68
PAT	5.10	1.05
Overall Gearing (times)	1.14	1.01
Interest coverage (times)	1.49	1.48

A: Audited;

As per the Q1FY21 published results, TRIL has reported TOI of Rs.115.86 crore with a net loss of Rs.3.60 crore vis-à-vis TOI of Rs.185.83 crore with a PAT of Rs.0.68 crore in Q1FY20.

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	-	-	-	150.00	CARE A3
Fund-based - LT/ ST-Cash Credit	-	-	-	188.00	CARE BBB; Stable / CARE A3
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	611.00	CARE BBB; Stable / CARE A3
Term Loan-Long Term	-	-	December 2022	23.26	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 (09-Jul-20)	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	188.00	CARE BBB; Stable / CARE A3	1)CARE BBB; Stable / CARE A3 (09-Jul-20)	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	611.00	CARE BBB; Stable / CARE A3	1)CARE BBB; Stable / CARE A3 (09-Jul-20)	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	23.26	CARE BBB; Stable	1)CARE BBB; Stable (09-Jul-20)	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: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
3.	Non-fund-based - ST-Letter of credit	Simple

Sr. No.	Name of the Instrument	Complexity Level
4.	Term Loan-Long Term	Simple

Annexure-4: List of subsidiaries and joint ventures of TRIL getting consolidated

Name of the Company	Relationship	% holding of TRIL as on March 31, 2020
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 Switchgear Private Limited (Erstwhile known as T&R Jingke Electricals Equipment 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.*

Contact us

Media Contact
Name: Mradul Mishra
Contact no. : +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name: Hardik Shah
Contact Number: +91-79-4026 5620
Email ID- hardik.shah@careratings.com

Business Development Contact
Name: Deepak Prajapati
Contact no. +91-79-4026 5656
Email ID - deepak.prajapati@careratings.com

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