

Transformers & Rectifiers (India) Ltd

March 28, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	85.02	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Short term Bank Facilities	150.00	CARE A3+ (A Three Plus)	Revised from CARE A2 (A Two)
Long term/ Short term Bank Facilities	936.00	CARE BBB+; Stable/ CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)	Revised from CARE A-; Stable/ CARE A2 (Single A Minus; Outlook: Stable/ A Two)
Total	1171.02 (Rupees One thousand One hundred Seventy One crore and Two 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) Ltd. (TRIL) takes into account expected significant underachievement of its projected financial performance for FY18 (refers to the period April 1 to March 31); with moderation in the company's sales and profitability expected during FY18 due to slowdown in order execution, which is also expected to result in moderation in its debt coverage indicators. The financial performance of the company remained subdued in 9MFY18 and recovery in pace of order execution is likely to be tepid in the near term.

The ratings continue to draw strength from TRIL's established position as one of the leading domestic transformer manufacturers, its strong technological tie-ups, moderate revenue visibility, well-established client base and favourable outlook for transformer industry.

The ratings, however, continue to remain constrained on account of TRIL's working capital intensive operations and exposure to volatile raw material prices.

Ability of the company to increase its pace of order execution, thereby achieving growth in its scale of operations and improvement in profitability, leverage and debt coverage indicators on a sustained basis while efficiently managing its working capital requirements shall be the key rating sensitivities. Furthermore, extent of investment in subsidiaries and joint ventures (JVs) going forward and its funding pattern shall also be a key rating monitorable.

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 upto 765 KV class shunt reactors, with Jiangsu Jingke Smart Electrical Co. Ltd. for manufacturing and supply of switch gear and switch panels and with Vortech Private Limited for manufacturing and supply of transformer oil regeneration and purification plants.

Moderate revenue visibility and well-established client base: TRIL had an order book of Rs. 976 crore (28,584 MVA) as on March 01, 2018, giving it a moderate revenue visibility.

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

Furthermore, the company has an established client base including state and central power utilities, comprising 45% of TRIL's 9MFY18 sales (27% in FY17), and established private players from industrial segment comprising the balance share. TRIL also exports transformers to over 15 countries such as United Kingdom, Canada, United Arab Emirates, South Africa, Saudi Arabia, Indonesia, Australia and Nigeria.

Favourable outlook for domestic transformer industry: Transformer manufacturing industry witnessed revival during FY16 and FY17 with volume growth of around 24% in FY16 and 5% in FY17 as compared to negative 10% in FY15. Furthermore, with huge power generation capacity addition targets and expected revival in power sector and investment cycle on the back of increasing thrust of government, the demand outlook for domestic transformer industry is likely to remain favourable.

Key Rating Weaknesses

Expected moderation in financial performance in FY18: The financial performance of TRIL is expected to moderate during FY18, marked by reduction in sales and profitability and moderation in debt coverage indicators, which is also expected to result in significant underachievement of its projected financial performance for FY18.

There was a slowdown in the order execution in 9MFY18 which resulted in a 32% y-o-y dip in its standalone TOI during this period to Rs.453.05 crore. Consequently, TRIL registered a net loss of Rs.3.40 crore during 9MFY18 with a dip in gross cash accruals (GCA) to Rs.7.33 crore, as against a profit after tax of Rs.13.64 crore during 9MFY17 with GCA of Rs.23.91 crore. Recovery in the pace of order execution is likely to be tepid in the near term though the company has moderate level of orders on hand. Thus, its gross cash accruals are also expected to remain restricted for the full year FY18.

Also, there was an increase in the standalone overall gearing of the company to 1.07x as on December 31, 2017, from 0.74x as on March 31, 2017, on account of increase in working capital borrowings. Debt coverage indicators also moderated during 9MFY18; marked by reduction in the PBILDT interest coverage to 1.32x in 9MFY18 from 2.12x in 9MFY17 (2.23x in FY17). The debt coverage indicators are expected to witness moderation even for the full year FY18, with subdued gross cash accruals for the year.

Working capital intensive operations: TRIL's operations are working capital intensive, as reflected by its long working capital cycle of around 130-180 days. This is mainly due to a high inventory holding requirement for smooth execution of orders, credit period extended to reputed clients, mainly to state utilities, and long order execution cycle due to varied product lines. The average utilization of the company's cash credit limits remained moderate at 83% for 12 months ended December 31, 2017; albeit it availed short term loans to fund the incremental working capital requirements during 9MFY18.

Exposure to volatile raw material prices; albeit price variation clause in majority orders: Prices of major raw materials such as copper and cold rolled grain oriented (CRGO) steel, forming around 60% of the total raw material cost for transformer manufacturing, are volatile in nature due to their global linkages. A 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.

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.

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, TRIL is engaged in manufacturing of electrical transformers and reactors which find application in power and industrial sectors. The company is amongst the largest domestic transformer manufacturers with an aggregate installed capacity of 33,200 mega volt ampere (MVA) as on March 31, 2017 at its three units at Odhav (1,200 MVA), Changodar (12,000 MVA) and Moraiya (20,000 MVA) in Ahmedabad. TRIL is present in the entire range of transformers, including power transformers upto 500 MVA, 1150 KV class and distribution transformers upto 5 MVA, 33 KV class. It also manufactures induction, electric arc furnace and rectifier transformers.

TRIL also has six subsidiaries which are engaged in products or services related to the manufacturing of transformers.

Brief Financials (Rs. crore)	Consolidated		Standalone	
	FY16 (A)	FY17 (A)	9MFY17 (Prov.)	9MFY18 (Prov.)
Total operating income	599.66	826.45	670.31	453.05
PBILDT	42.69	94.31	59.33	35.75
PAT	(6.93)	15.86	13.64	-3.40
Overall gearing (times)	0.93	0.74	0.61	1.07
Interest coverage (times)	1.12	2.23	2.12	1.32

A: Audited

TRIL contributes majority of the consolidated income and profitability of the group.

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

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.

Analyst Contact:

Name: Naresh M. Golani

Tel : 079-40265618

Mob : +91-98251-39613

Email: naresh.golani@careratings.com

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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
Non-fund-based - ST-Letter of credit	-	-	-	150.00	CARE A3+
Fund-based - LT/ ST-Cash Credit	-	-	-	250.00	CARE BBB+; Stable / CARE A3+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	686.00	CARE BBB+; Stable / CARE A3+
Term Loan-Long Term (Sanctioned)	-	-	September 2022	18.02	CARE BBB+; Stable
Term Loan-Long Term (Proposed)	-	-	-	67.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - ST-Letter of credit	ST	150.00	CARE A3+	1)CARE A2 (22-Sep-17) 2)CARE A2 (05-Jul-17)	1)CARE A3+ (31-Dec-16) 2)CARE A3+ (04-Aug-16)	1)CARE A3+ (03-Aug-15)	1)CARE A3+ (07-Jul-14)
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	250.00	CARE BBB+; Stable / CARE A3+	1)CARE A-; Stable / CARE A2 (22-Sep-17) 2)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)	1)CARE BBB+ / CARE A3+ (03-Aug-15)	1)CARE BBB+ / CARE A3+ (07-Jul-14)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	686.00	CARE BBB+; Stable / CARE A3+	1)CARE A-; Stable / CARE A2 (22-Sep-17) 2)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)	1)CARE BBB+ / CARE A3+ (03-Aug-15)	1)CARE BBB+ / CARE A3+ (07-Jul-14)
4.	Term Loan-Long Term (Sanctioned and proposed)	LT	85.02	CARE BBB+; Stable	1)CARE A-; Stable (22-Sep-17) 2)CARE A-; Stable (05-Jul-17)	1)CARE BBB+; Positive (31-Dec-16) 2)CARE BBB+ (04-Aug-16)	1)CARE BBB+ (03-Aug-15)	1)CARE BBB+ (07-Jul-14)

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 85111-53511/99251-42264
 Tel: +91- 0172-490-4000/01
 Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com