# Transformers & Rectifiers (India) Ltd

August 09, 2018

**Ratings**

| **Facilities** | **Amount (Rs. crore)** | **Rating[1]** | **Rating Action** |
|---|---|---|---|
| Long term Bank Facilities | 39.45 (reduced from 85.02) | 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 | 936.00 | CARE BBB+; Stable/ CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus) | Reaffirmed |
| **Total** | **1,125.45 (Rs. One thousand One hundred Twenty Five crore and Forty Five lakh only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of Transformers and Rectifiers (India) Ltd. (TRIL) continue to derive strength from its established position as one of the leading domestic transformer manufacturers, its strong technological tie-ups, moderate revenue visibility, well-established client base and stable demand outlook for transformer industry.

The ratings continue to remain constrained on account of TRIL's working capital intensive operations, moderately leveraged capital structure and exposure to volatile raw material prices. The ratings also continue to take cognizance of the moderation in its profitability and debt coverage indicators during FY18.

Ability of TRIL to efficiently manage its working capital while growing its scale of operations along with improvement in profitability and debt coverage indicators, on a sustained basis, shall be the key rating sensitivities. Furthermore, extent of investment in subsidiaries and 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.765.26 crore as on July 01, 2018, giving it a moderate revenue visibility. Furthermore, the company has an established client base including state and central power utilities, comprising 46% of TRIL's FY18 sales (27% in FY17), and established private players from industrial segment comprising the balance share. TRIL also exports transformers to countries such as United Kingdom, Canada, United Arab Emirates, South Africa, Saudi Arabia, Indonesia, Australia, Russia and Nigeria.

***Stable demand outlook for transformer industry:*** The demand of electricity is rising with the growing population and industrialization which is escalating demand of transformers. The Indian power and distribution transformer market is forecast to reach $2.9 billion by 2022. Industry believes that reforms such as 'Power for All' and UDAY would drive demand and Indian power transformer market is expected to grow at a CAGR of 10 per cent between 2018 and 2022. Cold rolled grain oriented (CRGO) laminated electrical steel which is one of the major raw materials for transformers, as not being manufactured in India, has to be imported. However, there are no major supply constrains witnessed and the price rise, if any, is likely to be passed on to the customers mainly due to majority of contract having price variation clause. The industry is marred by high working capital intensity and the hardening of interest rate which could contract the net margins of players.

However, rapid growth in metros, airports and others infrastructure projects and increasing emphasis on power and infrastructure sector by the government, is likely to augur well for the players operating in this industry in the medium term.

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

**Key Rating Weaknesses**

***Decline in total operating income along with moderation in profitability and debt coverage indicators during FY18:*** During 9MFY18, on a standalone basis, there was a dip in total operating income from Rs.670.31 crore in 9MFY17 to Rs.453.05 crore in 9MFY18 and dip in PBILDT margin from 8.85% to 7.89%. On similar lines the total operating income of the company declined, as expected by 13% y-o-y from Rs.826.81 crore in FY17 to Rs.721.39 crore in FY18 due to slower execution of order on account of procedural issues during implementation of GST, technical / testing issues in certain cases, change in design in some orders and slower than expected lifting up of material by select clients. The production quantity of the company declined from 23,617 MVA in FY17 to 21,866 MVA in FY18. Due to lower sales volume and increase in power, fuel and overheads, the PBILDT margin of the company deteriorated by 146 bps from 11.32% in FY17 to 9.87% in FY18. Further due to increase in interest expenses, PAT margin of the company further declined by 204 bps from 2.90% in FY17 to 0.86% in FY18.

During Q1FY19, TRIL on a standalone basis reported PBILDT of Rs.17.59 crore on a total operating income of Rs.224.72 crore as against PBILDT of Rs.8.85 crore on a total operating income of Rs.133.02 crore during Q1FY18. Although there has been improvement in its scale of operations in Q1FY19, establishment of its track record on a sustained basis would be a key credit monitorable.

***Working capital intensive operations:*** TRIL's operations are working capital intensive, as reflected by its long working capital cycle of around 130-185 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 84% for 12 months ended June 2018; albeit it availed short term loans to fund the incremental working capital requirements.

***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, 2018 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.

| Consolidated Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|---|---|---|
| Total operating income | 826.81 | 721.39 |
| PBILDT | 93.63 | 71.18 |
| PAT | 23.99 | 6.24 |
| Overall gearing (times) | 0.92 | 1.06 |
| Interest coverage (times) | 2.21 | 1.60 |

*A: Audited*

Further, TRIL at standalone level reported PBILDT of Rs.17.59 crore on a total operating income of Rs.224.72 crore during Q1FY19 as against PBILDT of Rs.8.85 crore on a total operating income of Rs.133.02 crore during Q1FY18.

**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: Mr. Naresh M. Golani
Tel: 079-40265618
Mobile: +91-9825139613
Email: naresh.golani@careratings.com

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**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 | - | - | September 2022 | 39.45 | 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 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. | Non-fund-based - ST-Letter of credit | ST | 150.00 | CARE A3+ | - | 1) CARE A3+ (28-Mar-18)<br>2)CARE A2 (22-Sep-17)<br>3)CARE A2 (05-Jul-17) | 1)CARE A3+ (31-Dec-16)<br>2)CARE A3+ (04-Aug-16) | 1)CARE A3+ (03-Aug-15) |
| 2. | Fund-based - LT/ ST-Cash Credit | LT/ST | 250.00 | CARE BBB+; Stable / CARE A3+ | - | 1) CARE BBB+; Stable/CARE A3+ (28-Mar-18)<br>2)CARE A-; Stable / CARE A2 (22-Sep-17)<br>3)CARE A-; Stable / CARE A2 (05-Jul-17) | 1)CARE BBB+; Positive / CARE A3+ (31-Dec-16)<br>2)CARE BBB+ / CARE A3+ (04-Aug-16) | 1)CARE BBB+ / CARE A3+ (03-Aug-15) |
| 3. | Non-fund-based - LT/ ST-Bank Guarantees | LT/ST | 686.00 | CARE BBB+; Stable / CARE A3+ | - | 1) CARE BBB+; Stable/CARE A3+ (28-Mar-18)<br>2)CARE A-; Stable / CARE A2 (22-Sep-17)<br>3)CARE A-; Stable / CARE A2 (05-Jul-17) | 1)CARE BBB+; Positive / CARE A3+ (31-Dec-16)<br>2)CARE BBB+ / CARE A3+ (04-Aug-16) | 1)CARE BBB+ / CARE A3+ (03-Aug-15) |
| 4. | Term Loan-Long Term | LT | 39.45 | CARE BBB+; Stable | - | 1) CARE BBB+; Stable (28-Mar-18)<br>2)CARE A-; Stable (22-Sep-17)<br>3)CARE A-; Stable (05-Jul-17) | 1)CARE BBB+; Positive (31-Dec-16)<br>2)CARE BBB+ (04-Aug-16) | 1)CARE BBB+ (03-Aug-15) |

# 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

**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

**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

**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

**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

**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

**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

**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

**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

**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

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