

Transformers & Rectifiers (India) Ltd

September 22, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	85.02 (enhanced from 10.02)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	150.00	CARE A2 (A Two)	Reaffirmed
Long term/ Short term Bank Facilities	936.00 (enhanced from 864.00)	CARE A-; Stable/ CARE A2 (Single A Minus; Outlook: Stable/ A Two)	Reaffirmed
Total Bank Facilities	1,171.02 (Rupees One thousand One hundred Seventy One crore and Two lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Transformers and Rectifiers (India) Ltd. (TRIL) continue to draw 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 favourable outlook for transformer industry. The ratings are also underpinned by its moderate leverage and debt coverage indicators on the back of significant growth in scale of operations and improvement in profitability during FY17 (refers to the period from April 1 to March 31).

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 efficiently manage its working capital while further growing its scale of operations along with improvement in profitability and debt coverage indicators 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 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.

Improvement in scale of operations, profitability and leverage: During FY17, TRIL achieved its highest consolidated total operating income (TOI) since inception of Rs.826.45 crore. TRIL's TOI grew by 38% y-o-y in FY17 and its production grew by 51% y-o-y over the same period. Profitability also improved as indicated by an increase of 429 bps in PBILDT margin during FY17 and sustained improvement in gross margin over nine quarters ended Q1FY18. The marginal net loss reported during Q1FY18 was on account of deferment of execution of few orders which were subsequently executed in July 2017; and due to some disruption on account of GST implementation. TRIL, however, reported cash profit during Q1FY18. Overall gearing improved from 0.93x as on March 31, 2016 to 0.74x as on March 31, 2017 while interest coverage improved from 1.13x during FY16 to 2.23x during FY17. Despite the marked improvement, the overall gearing and debt coverage indicators were at a moderate level.

Moderate revenue visibility and well-established client base: TRIL had an order book of Rs.962.87 crore as on May 1, 2017, to be largely executed during FY18. Furthermore, TRIL has an established client base including state and central power transmission utilities with public sector utilities comprising 27% of TRIL's FY17 sales and established private players from industrial segment comprising the balance 73% share. Furthermore, TRIL exports transformers to over 15 countries such as United Kingdom, Canada, United Arab Emirates, South Africa, Saudi Arabia, Indonesia, Australia and Nigeria.

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

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 positive.

Key Rating Weaknesses

Working capital intensive operations: TRIL's operations are working capital intensive, as reflected by its long working capital cycle of around 130-180 days mainly due to high inventory holding requirement for smooth execution of orders, credit period extended mainly to state utilities and longer order execution cycle due to varied product lines. Nevertheless, the same exhibited an improving trend over three years and reduced to 132 in FY17 as compared to 157 days in FY16 and 180 days in FY15. The average utilization of working capital limits was moderate at 78% for fund-based limits and 80% of non-fund based limits for 12 months ended August, 2017.

Exposure to volatile raw material prices; albeit price variation clause in majority orders: Prices of raw materials such as copper and cold rolled grain oriented (CRGO) steel, forming around 60% of the total raw material cost, are volatile due to their global linkages. However, approximately 66% of outstanding orders of TRIL have price variation clause, reducing the impact to that extent.

Analytical approach: Consolidated

TRIL is a corporate parent company with substantial business operations in the manufacturing of transformers. TRIL has four subsidiaries and each is 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 of Group companies 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.

It 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. Besides, it also manufactures induction, electric arc furnace and rectifier transformers.

Brief Consolidated Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	599.66	826.45
PBILDT	42.69	94.31
PAT	(6.93)	15.86
Overall gearing (times)	0.93	0.74
Interest coverage (times)	1.12	2.23

A: Audited

Furthermore, as per published results for Q1FY18, TRIL on a standalone basis reported a net loss of Rs.2.16 crore (gross cash accrual of Rs.1.45 crore) on a total operating income of Rs.133.02 crore, compared with a net profit of Rs.0.61 crore (gross cash accrual of Rs.3.97 crore) on a total operating income of Rs.172.38 crore during Q1FY17.

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
 Mobile : 9825139613
 Email: naresh.golani@careratings.com

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About CARE Ratings:

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Disclaimer

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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 A2
Fund-based - LT/ ST-Cash Credit	-	-	-	250.00	CARE A-; Stable / CARE A2
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	686.00	CARE A-; Stable / CARE A2
Term Loan-Long Term	-	-	May 2018	10.02	CARE A-; Stable
Term Loan-Long Term (Proposed)	-	-	-	75.00	CARE A-; 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 A2	1)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 A-; Stable / CARE A2	1)CARE A-; Stable / CARE A2	1)CARE BBB+; Positive / CARE A3+	1)CARE BBB+ / CARE A3+	1)CARE BBB+ / CARE A3+

					(05-Jul-17)	(31-Dec-16) 2)CARE BBB+ / CARE A3+ (04-Aug-16)	(03-Aug-15)	(07-Jul-14)
3.	Non-fund-based - LT/ ST- Bank Guarantees	LT/ST	686.00	CARE A-; Stable / CARE A2	1)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	LT	10.02	CARE A-; Stable	1)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)
5.	Term Loan-Long Term (Proposed)	LT	75.00	CARE A-; Stable	-	-	-	-

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 99888 05650
 Tel: +91-172-5171 100 / 09
 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