Voltamp Transformers Limited

October 3, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	10.00	**CARE AA; Stable (Double A; Outlook: Stable)**	**Revised from CARE AA- (Double A Minus)**
Long-term/ Short-term Bank Facilities	186.03	**CARE AA; Stable/ CARE A1+ (Double A; Outlook: Stable/ A One Plus)**	**Revised from CARE AA-/ CARE A1+ (Double A Minus/ A One Plus)**
Total Facilities	**196.03 (Rupees One Hundred Ninety Six crore and Three lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Voltamp Transformers Ltd (VTL) takes into account growth in its scale of operations and profitability during FY17 (refers to period from April 1 to March 31) and Q1FY18; and improvement in client diversity with further increase in income composition from private players.

The ratings continue to draw strength from VTL's established track record in transformer business, experienced management, and conservative policy on use of debt with comfortable capital structure and debt coverage indicators along with its healthy liquidity.

The long-term rating, however, continues to be constrained by VTL's moderate scale, susceptibility of its profitability to volatile raw material prices and competitive pressures, and its working capital intensive operations.

VTL's ability to increase its scale of operations, maintain its profitability in light of volatile raw material prices and competition and effectively manage its working capital requirements while maintaining its comfortable capital structure and liquidity shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in scale of operations and profitability during FY17 and Q1FY18: VTL's total operating income (TOI) increased by around 9% y-o-y in FY17, mainly led by growth of 15% and 17% in the sales volume of power transformers and dry type transformers respectively. VTL's PBILDT margin has witnessed an improving trend over the past few years. Its PBILDT margin improved y-o-y by 274 bps to 12.28% in FY17 on the back of reduction in the raw material price and higher sales volume. The improvement in profitability led to a 48% y-o-y increase in VTL's gross cash accruals (GCA) to Rs.73.81 crore in FY17.

The growth trajectory in its TOI and profitability continued during Q1FY18 wherein VTL registered a 13% y-o-y growth in its TOI to Rs.154.06 crore along with improvement in its PBILDT margin by 519 bps y-o-y to 20.63%. Its interest coverage continued to remain very comfortable.

Improvement in client diversity: VTL has a diversified clientele with the top ten customers comprising only 12% of the net sales in FY17 (as against around 33% of the net sales in FY16). The clients are spread across various business segments, including power, refineries, real estate, automobile, infrastructure and steel. Its clientele includes reputed private players which contributed around 95% of VTL's net sales in FY17 (85% in FY16). It has very limited exposure to the State Government electricity segment.

Experienced management with conservative policy on use of debt: The management of the company comprising of Mr. Kanubhai S. Patel (Chairman & Managing Director) has rich experience in transformer industry. During past few years, the transformer industry witnessed a challenging phase with subdued order inflow resulting in aggressive bidding by players and consequent dip in profitability, along with elongation in receivables. However, during this phase, VTL was able to meet its working capital requirements and routine capex through internal accruals and its unencumbered liquid

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

investments, without resorting to any external long-term debt or fund-based working capital limits. As on March 31, 2017 VTL had unencumbered liquid investments of Rs.298 crore reflecting its healthy liquidity.

Overall volume growth in the transformer industry during FY17: Growth in the transformer industry during FY17 was mainly led by 16% growth in power transformers which was offset by 11% de-growth in distribution transformers to some extent. As on March 31, 2017, installed power generation capacity from conventional sources was 3,26,848 MW and from renewable sources was 57,260 MW. There was 112% achievement of the projected power generation capacity addition during the 12th five year plan (FY13-FY17) which led to growth in the transformer industry. With huge power generation capacity addition targets and expected revival in power sector and investment cycle, the outlook for power equipment industry is likely to remain stable.

Key Rating Weaknesses

Working capital intensive operations: VTL's operations are inherently working capital intensive, as reflected by its long operating cycle of 135-145 days. This is due to a reasonable inventory holding requirement for smooth execution, along with credit period required to be offered to major clients. High receivable days could also be attributed to skewed revenue pattern (around 35% of TOI booked in Q4). Further, VTL does not have any major creditors since the payment to suppliers is made through cash/ advance payment on account of its healthy liquidity.

Exposure to volatile raw material prices and competitive pressures: Prices of raw materials such as copper and cold rolled grain oriented (CRGO) steel, forming around 60% of the total raw material cost have historically remained volatile. CRGO steel is imported in India due to lack of any domestic manufacturing facility, which results in added volatility in its prices due to movement in foreign exchange (forex) rates. Further, the full impact of volatile raw material prices cannot be passed on to customers on account of high competition in the industry. This exposes VTL's profitability to raw material price fluctuation risks and competitive pressures since majority of the company's orders are fixed price in nature. The company does not have any major forex fluctuation risk due to negligible imports of raw materials, as it purchases large part of its CRGO from local players. With no major exports there is no natural hedge against the forex risk.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

Promoted by Mr Lalitkumar Patel and his family in 1967, VTL; CIN No. L31100GJ1967PLC001437; is engaged in manufacturing and sales of electrical transformers.

Its product portfolio comprises oil-filled power and distribution transformers upto 160 mega volt ampere (MVA), 220 kilo volt (KV) class and dry type transformers upto 12.50 MVA, 33 KV class. The products find application in varied industries including power, refineries, real estate, automobile, infrastructure and steel. VTL has a diversified clientele, including private players and government entities, with private players contributing large part of its revenue. The company's production facilities are located at Makarpura and Savli in Vadodara, Gujarat with an aggregate installed capacity of 13,000 MVA per annum, as on March 31, 2017.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	581.18	631.78
PBILDT	55.47	77.60
PAT	43.98	67.97
Overall gearing (times)	0.00	0.00
Interest coverage (times)	126.32	164.53

A: Audited

Further, VTL reported total operating income of Rs.154.06 crore with PBILDT of Rs.20.63 crore during Q1FY18 as against total operating income of Rs.135.82 crore with PBILDT of Rs.15.44 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.*

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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 - LT/ ST-Bank Guarantees	-	-	-	186.03	CARE AA; Stable / CARE A1+
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE AA; 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 - LT/ ST-Bank Guarantees	LT/ST	186.03	CARE AA; Stable / CARE A1+	-	1)CARE AA- / CARE A1+ (13-Oct-16)	1)CARE AA- / CARE A1+ (07-Oct-15)	1)CARE AA- / CARE A1+ (28-Aug-14)
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE AA; Stable	-	1)CARE AA- (13-Oct-16)	1)CARE AA- (07-Oct-15)	1)CARE AA- (28-Aug-14)

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