

Voltamp Transformers Limited

October 07, 2019

Ratings

Bank Facilities	Amount (Rs. crore)	Ratings ^[1]	Rating Action
Long-term bank facilities	10.00	CARE AA; Stable [Double A; Outlook: Stable]	Reaffirmed
Long-term/Short-term bank facilities	282.50 (enhanced from Rs.186.03 crore)	CARE AA; Stable / CARE A1+ [Double A; Outlook: Stable / A One Plus]	Reaffirmed
Total Facilities	292.50 (Rupees Two hundred ninety two crore and fifty lakh Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Voltamp Transformers Ltd (VTL) continue to derive strength from its established track record in transformer business, experienced management, steady growth in scale of operations and profitability during FY19 (refers to period from April 1 to March 31) and Q1FY20, conservative policy on use of debt with comfortable capital structure, strong debt coverage indicators along with its strong liquidity.

The long-term rating, however, continues to be constrained by VTL's moderate scale of operations, high reliance on non-fund based working capital limits and susceptibility of its profitability to volatile raw material prices & competitive pressure.

VTL's ability to increase its scale of operations, maintain its profitability in light of volatile raw material prices & competition and effectively managing 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

Experienced management with long track record of operation

Late Mr. Lalit Kumar Patel, principal promoter of VTL, was a technocrat having over four decades of experience in the transformer industry. Mr. Kunjal L. Patel, son of Late Mr. Lalit Kumar Patel, who holds bachelor's degree in Electrical Engineering, is the second generation management of VTL. He has 24 years of vast experience in production & marketing of transformers. He looks after the general management comprising of purchase & planning, manufacturing, quality control and design aspects of transformers. Mr. Kanubhai S. Patel, Chartered Accountant by profession, is the Chairman & Managing director of the company. He looks after the general management, new business sourcing and the overall strategy building for VTL. During past few years when the transformer industry witnessed a challenging phase with subdued order inflow and aggressive bidding by industry players which adversely impacted the profitability and resulted in elongation of receivables, VTL was able to successfully navigate through this phase on account of its conservative stance and focus on cash flows instead of aggressive debt-funded growth.

Diversified and reputed clientele

VTL has a diversified clientele with more than 1000 customers across various end-use industries. Over the years VTL has established long standing relationship with reputed players which have helped it to get repeat orders. The clients are spread across various user industries such as power, refineries, real estate, automobile, infrastructure, steel, etc. Its top ten customers comprise only 26% of the TOI during FY19. Its clientele includes reputed private players which contribute more than 90% of VTL's net sales leading to very limited exposure to State Government electricity segment wherein inherently the receivables are elongated. VTL's focus on private parties with a significantly diversified clientele has held it in good stead over the years.

Steady growth in scale of operations, stable profitability along with comfortable capital structure and strong debt coverage indicators

VTL's total operating income (TOI) increased by 29% in FY19 compared to FY18 on the back of ~20% increase in sales volume mainly on account of improved order execution. VTL's PBILDT margin has witnessed a steady improvement over

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

the past few years. Its PBILDT margin improved to 13.13% during FY19 compared to 12.65% during FY18. The growth trajectory in its TOI continued during Q1FY20 wherein VTL registered ~12% growth in its TOI to Rs.194.01 crore on Y-o-Y basis with further improvement in its PBILDT margin to 14.08%. VTL's capital structure has remained comfortable with a strong Net-worth base of Rs.685.16 crore as on March 31, 2019, with no term debt and nil utilization of fund based working capital limits. Its interest coverage & Total debt/GCA continued to remain highly comfortable.

Moderate revenue visibility

The order book of VTL stood at Rs.753 crore as on August 29, 2019, translating into order book-to-sales ratio of 0.89x of its FY19 TOI, providing moderate revenue visibility to the company. VTL has generally been selective in bidding for orders which has over the years resulted in stable performance of the company.

Liquidity: Strong

VTL's liquidity is marked by strong accruals against no term debt repayment obligations and steady growth in investment portfolio which stood to the tune of Rs.436 crore as on June 30, 2019. With an overall gearing of 0.04 times as of March 31, 2019, VTL has sufficient gearing headroom, to raise additional debt for its capex. Its' entirely unutilized fund based working capital bank lines are more than adequate to meet its incremental working capital needs over the next one year. Its current ratio was also very healthy at 6.03 times as on March 31, 2019.

Key Rating Weaknesses

High reliance on non-fund based working capital limits

VTL's operations are inherently working capital intensive, as reflected by its long operating cycle of 125-145 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 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. Further, VTL's operations are heavily reliant on non-fund based working capital limits since it has to extend performance bank guarantee with an average tenor of 3 to 6 years for transformers sold by it. The utilization of non-fund based limits had peaked during Q4FY19 primarily on account of growth in its scale of operations during FY19. Hence to accommodate this increased non-fund based working capital requirement, existing lender has sanctioned additional Rs.100 crore of BG limits in July 2019.

Exposure to volatile raw material prices and competitive pressure

Prices of raw materials such as copper and cold rolled grain oriented (CRGO) steel, forms around 60% of the total raw material cost, which are volatile due to their global linkages. The volatile raw material prices exposes VTL's profitability to raw material price fluctuation risks since majority of the company's orders are fixed price in nature. The company has a reasonable hedging policy in place for its major raw materials. The company does not have any major forex fluctuation risk due to negligible imports of raw materials and no major export income.

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 Lalit Kumar Patel and his family in 1967, Voltamp Transformers Limited (VTL) is engaged in manufacturing and sale 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, steel, etc. VTL has a diversified clientele, including private players and government entities, with private players contributing a 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, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	655.94	845.70
PBILDT	82.95	111.04
PAT	73.48	84.84
Overall gearing (times)	0.03	0.04
Interest coverage (times)	148.81	188.97

A: Audited

As per Q1FY20 published results, VTL has reported a TOI of Rs.194.01 crore with a PAT of Rs.16.89 crore vis-à-vis TOI of Rs.172.63 crore with a PAT of Rs.15.04 crore during Q1FY19.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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 - LT/ ST-Bank Guarantees	NA	NA	NA	282.50	CARE AA; Stable / CARE A1+
Fund-based - LT-Cash Credit	NA	NA	NA	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	282.50	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (05-Sep-18)	1)CARE AA; Stable / CARE A1+ (03-Oct-17)	1)CARE AA- / CARE A1+ (13-Oct-16)
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE AA; Stable	-	1)CARE AA; Stable (05-Sep-18)	1)CARE AA; Stable (03-Oct-17)	1)CARE AA- (13-Oct-16)

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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