

Voltamp Transformers Ltd

September 05, 2018

Ratings

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

Details of instruments/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 FY18 (refers to period from April 1 to March 31) and Q1FY19, 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

Steady growth in scale of operations and profitability during FY18 and Q1FY19: VTL's total operating income (TOI) increased by 4.70% y-o-y to Rs.655.94 crore in FY18, mainly led by improvement in sales realization. VTL's PBILDT margin has witnessed a steady improvement over the past few years. Its PBILDT margin improved y-o-y by 56 bps from 12.09% in FY17 to 12.65% in FY18. The growth trajectory in its TOI continued during Q1FY19 wherein VTL registered a 16% y-o-y growth in its TOI to Rs.165.87 crore. Its interest coverage continued to remain very comfortable.

Diversified clientele: VTL has a diversified clientele with the top ten customers comprising only 19% of its net sales in FY18 (as against around 12% of the net sales in FY17). The clients are spread across various business segments such as power, refineries, real estate, automobile, infrastructure and steel. Its clientele includes reputed private players which contributed around 97% of VTL's net sales in FY18 (95% 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 investments, without resorting to any external long-term debt or fund-based working capital limits. As on March 31, 2018, VTL had unencumbered liquid investments of Rs.373.70 crore reflecting its healthy liquidity.

Industry outlook: The demand for electricity is rising with the growing population and industrialization which is expected to result in increase in demand for 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 will drive the demand and Indian power transformer market is set to grow at a CAGR of 10 per cent in the medium term. Cold rolled grain oriented (CRGO) laminated silicon steel which is one of the major raw materials for transformers has to be largely imported. Lower prices of raw material resulted in improvement profit margins of this sector. However, rapid growth in metros, airports and others infrastructure projects and increasing emphasis on power and infrastructure sector by the Govt. of India, there is a huge potential for the players operating in this industry in the coming years.

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

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 34% 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 CRGO steel, forming around 60% of the total raw material cost, 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. It does not have any 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 and steel. 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, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	626.47	655.94
PBILDT	75.72	82.95
PAT	72.21	73.48
Overall gearing (times)	0.04	0.03
Interest coverage (times)	148.03	148.81

A: Audited; the above financials are as per IND-AS

Further, VTL reported total operating income of Rs.165.87 crore with PBILDT of Rs.23.20 crore during Q1FY19 as against total operating income of Rs.143.08 crore with PBILDT of Rs.20.63 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.

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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 - 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 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 - LT/ ST-Bank Guarantees	LT/ST	186.03	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (03-Oct-17)	1)CARE AA- / CARE A1+ (13-Oct-16)	1)CARE AA- / CARE A1+ (07-Oct-15)
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE AA; Stable	-	1)CARE AA; Stable (03-Oct-17)	1)CARE AA- (13-Oct-16)	1)CARE AA- (07-Oct-15)

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