June 26, 2023

Vilas Transcore Limited: Ratings reaffirmed; Outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	3.00	3.00	[ICRA]BBB+; reaffirmed, Outlook revised to Positive from Stable
Letter of Credit	41.98	41.98	[ICRA]A2; reaffirmed
Total	**44.98**	**44.98**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the long-term rating outlook factors in Vilas Transcore Limited's (VTL) healthy financial performance in the last two financial years, which is expected to continue in the near term. While its sales volumes are expected to improve in FY2024, margins could moderate to some extent due to lower realisation. Nonetheless, the company's strong balance sheet is expected to keep the capitalisation and debt protection indicators at healthy levels. In FY2023, on a provisional basis, VTL earned revenues of ~Rs. 282.6 crore, increased from ~Rs. 233 crore in FY2022. The operating margin, despite moderation, remained healthy at ~13.2% in FY2023. The ratings continue to consider VTL's healthy financial risk profile, characterised by its comfortable capital structure with low debt and healthy debt coverage indicators. ICRA notes that loans from promoters have also been largely repaid. The ratings also reflect the promoter's extensive experience and established track record in the transformer industry, along with the company's reputed client base and long association with them.

The ratings are, however, constrained by the company's exposure to intense competition in the highly fragmented transformer industry due to the presence of various organised and unorganised players. It also considers the vulnerability of the company's profitability to fluctuations in raw material (cold rolled grain oriented [CRGO] steel) prices and its availability. The ratings also factor in the high working capital intensity owing to the elongated receivables cycle and high inventory holdings.

The Stable outlook reflects ICRA's opinion that the company will continue to benefit from the favourable demand outlook for the transformer industry and its established relationship with customers, resulting in continued order inflow.

Key rating drivers and their description

Credit strengths

Healthy improvement in financial performance; likely to continue in near term – VTL has witnessed a sharp improvement in its financial performance in FY2022 and FY2023 on the back of high realisations and improved margins due to a shortage of CRGO sheets in the market. In 9M FY2023, sales realisation for CRGO laminations, coils and cores increased by 33%, 50% and 30%, respectively, compared to FY2022. While the margin moderated to some extent in FY2023, it remained healthy at ~13.2% against ~16.4% in FY2022. The prices are expected to witness correction in the near term, leading to a moderation in the operating margins, however, absolute profits will remain healthy.

Healthy financial risk profile – The capital structure remains comfortable with a gearing of 0.01 times as of March 2023. The total debt remains marginal at Rs. 1.3 crore as on March 31, 2023 due to repayment of the promoter loans and marginal utilisation of working capital (WC) limits. The debt coverage indicators also remain healthy with an interest coverage of 22 times (15 times in FY2022), TOL/TNW of 0.3 times (0.6 times in FY2022) and DSCR of 20 times in FY2023 (13 times in FY2022). The capital structure and coverage indicators are estimated to remain comfortable in FY2024 and beyond with low dependence on external debt, steady accretion to reserves and healthy profits.

Extensive experience of promoters in transformer industry – VTL was established in 1995 by Mr. Nilesh Patel, who has an experience of over two decades in the transformer industry. He is also the promoter of the Group entity, Jayesh Electricals Limited (JEL), which manufactures transformers.

Reputed customer profile – The company mainly caters to domestic transformer manufacturers and has minimal exports. VTL's customer profile comprises reputed and established transformer manufacturers, with which it has built strong relationships over the years, as evident from its track record of repeat orders.

Credit challenges

Vulnerability of profitability to fluctuations in raw material prices – VTL's margins are primarily affected by the fluctuations in CRGO steel prices, which is the company's major raw material. ICRA notes that the prices of CRGO sheets have remained volatile in the recent past. As the major portion is backed by LC, it resulted in high utilisation of the non-fund-based limits. Further, the company is exposed to the fluctuations in foreign exchange (forex) rates as a part of the raw material requirement is met through imports.

Intense competition – The transformer lamination, cores and coils manufacturing industry is highly fragmented because of the presence of various organised and unorganised players, leading to intense competition. This has resulted in a moderate scale of operations.

High working capital intensity – VTL's key raw material is CRGO sheet, which was primarily met through direct imports till FY2020. In FY2021, the company diversified its supplier base to include more domestic players. However, the lead time for procurement of raw material remains high. The long lead time results in high inventory holding of ~90 days. In addition to this, elongated receivables led to an increased NWC/OI level of ~25% in FY2023. ICRA notes that the company has written off bad debts pertaining to the previous years, worth ~Rs. 11.4 crore in FY2022, resulting in better debtor days. ICRA expects the working capital intensity to continue to be high at ~25% in the near term on the back of higher inventory holding period.

Liquidity position: Adequate

VTL's liquidity position is adequate, as evident from its sufficient accruals relative to the debt repayment obligations. ICRA notes that the company has no external debt at present. ICRA notes that VTL is planning to undertake a capital expenditure, expected to be partly funded via debt, however, its dependence on external debt is likely to remain low, going forward. The promoter has infused unsecured loans in the business as and when required to support the incremental working capital requirements.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if VTL is able to strengthen its net worth position, while maintaining its healthy liquidity position.

Negative factors – ICRA may downgrade VTL's ratings in case of any decline in its scale of operations or a moderation in margins on a sustained basis. Any large debt-funded capex or a stretch in the company's working capital cycle, leading to a deterioration in key credit metrics and liquidity position, could also put pressure on the ratings. A specific trigger for a rating downgrade includes RoCE of less than 16% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The assigned ratings are based on the issuer's standalone financial statements.

About the company

VTL started its operations in 1995 as a proprietorship concern of Mr. Nilesh Patel, a Vadodara-based first-generation entrepreneur. It was converted into a public limited company in 2007. The company manufactures transformer components made of CRGO steel. Its product profile consists of transformer laminations, step lap transformer lamination cores, stacked assembled cores, wound cores, and slit coils. VTL's manufacturing units are located in Vadodara, Gujarat, with a manufacturing capacity of ~17,200 metric tonnes per annum (MTPA).

Key financial indicators (audited)

SGL	FY2022	FY2023 Provisional
Operating income	233.11	282.61
PAT	17.87	29.43
OPBDIT/OI	16.4%	13.2%
PAT/OI	7.7%	10.4%
Total outside liabilities/Tangible net worth (times)	0.55	0.32
Total debt/OPBDIT (times)*	0.03	0.01
Interest coverage (times)	14.94	21.99

Source: Vilas Transcore Limited; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating historyfor the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Apr-23 (Rs. crore)	Date & rating	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jun 26, 2023	-	Mar 25, 2022 Apr 08, 2021	-
1	Cash Credit	Long term	3.0	-	[ICRA]BBB+(Positive)	-	[ICRA]BBB+(Stable)	-
2	Letter of Credit	Short term	41.98	-	[ICRA]A2	-	[ICRA]A2	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Letter of Credit	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	3.0	[ICRA]BBB+(Positive)
NA	Letter of Credit	-	0.15%/0.75%	-	41.98	[ICRA]A2

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA.

Annexure II: List of entities considered for consolidated analysis

Not applicable

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