June 24, 2024

Vilas Transcore Limited: Ratings upgraded to [ICRA]A-/[ICRA]A2+ and outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Cash credit	3.00	3.00	[ICRA]A-(Stable) upgraded from [ICRA]BBB+(Positive) with change in outlook to Stable from Positive
Short-term – Letter of credit	41.98	41.98	[ICRA]A2+ upgraded from [ICRA]A2
Total	**44.98**	**44.98**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the ratings factors in Vilas Transcore Limited's (VTL) healthy financial performance in FY2024, which is expected to sustain in FY2025 as reflected by the expansion in scale and strengthening of its net worth position post fund raise of ~Rs. 95 crore through an Initial Public Offering (IPO). VTL's sales volumes increased in FY2024 and the same is further projected to rise in FY2025 on the back of favourable demand outlook from the end-user industries. The ratings continue to consider VTL's healthy financial risk profile, characterised by comfortable capital structure with low debt and healthy debt coverage indicators. Healthy profitability, along with negligible debt levels resulted in robust debt protection indicators with an interest cover of ~20.4 times and DSCR of ~17.5 times in 9M FY2024. The ratings 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 working capital-intensive operations and customer concentration risk, since a single customer contributed to ~45-55% of revenues during the last three-four years. VTL's new customer additions in FY2023 and FY2024 is expected to reduce the client concentration risk to an extent in the medium term. It is also exposed to intense competition in the highly fragmented transformer component supplier industry due to the presence of various organised and unorganised players. ICRA 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 factor in the high working capital intensity owing to the elevated inventory holdings. The company plans to enhance its capacity in the medium term, which will be largely funded by IPO proceeds. Consequently, the coverage and leverage metrics are expected to remain comfortable in the interim.

The Stable outlook reflects ICRA's opinion that the company will continue to benefit from its comfortable financial profile and its established relationship with customers, resulting in continued order inflow.

Key rating drivers and their description

Credit strengths

Healthy financial risk profile with low leverage and comfortable coverage metric – VTL's financial risk profile remains healthy with low gearing and comfortable debt protection metrics. The total debt remained marginal at Rs. 5 crore as on December 31, 2023 due to repayment of the promoter loans and nominal utilisation of working capital (WC) limits. Its net worth has improved substantially with infusion of funds raised via IPO in June 2024, thus resulting in a healthy capital structure. The debt coverage indicators remain healthy with an interest coverage of 20.4 times (15 times in FY2023), TOL/TNW of 0.4 times (0.4 times in FY2023) and DSCR of 17.5 times in 9M FY2024 (12 times in FY2023). 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 and transformer component manufacturing 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. However, the company is exposed to customer concentration risk as ~45-55% of sales is made to a single customer. Nonetheless, established position of the customer in the transformer industry and VTL's long association with the same provide some comfort.

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. The prices of CRGO sheets have remained volatile in the recent past. As a major portion of raw material procurement is backed by LC, it resulted in high utilisation of non-fund based limits. Further, the company is exposed to fluctuations in foreign exchange (forex) rates as a part of the raw material requirement is met through imports.

Intense competition constrains pricing flexibility – 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. However, the scale of operations is likely to increase in the near term with the expected rise in capacities.

High working capital intensity – VTL's key raw material is CRGO sheet, which was primarily met through direct imports till FY2020. Since FY2021, the company has diversified its supplier base to include more domestic players. However, the lead time for procurement of raw material remains moderately high. The long lead time results in high inventory holding of ~80 days, resulting in NWC/OI level of ~21% in FY2023. ICRA expects the working capital intensity to be high at ~22-23% 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 healthy accruals (more than Rs. 20.00 crore annually) relative to the debt repayment obligations. ICRA notes that the company has no external debt at present. VTL is planning to undertake a capital expenditure for setting up a new factory. However, the same will be funded from the IPO proceeds and no fresh debt is envisaged. 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 in case of improved business diversification, along with a substantial increase in its scale of operations, while maintaining healthy profitability and comfortable debt protection metrics on a sustained basis.

Negative factors – ICRA may downgrade VTL's ratings in case of any significant 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. Specific credit metrics that could result in ratings downgrade includes total debt/OPBDITA of more than 2.0 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 operations in 1995 as a proprietorship concern of Mr. Nilesh Patel, a Vadodara-based first-generation entrepreneur. It was subsequently converted into a public limited company in 2007. The company manufactures and supplies components used in the power distribution and transmission sector, primarily to transformer and other power equipment manufacturers in India and abroad. Its product profile consists of cold rolled grain oriented (C.R.G.O.) lamination core, CRGO slit coils, CRGO stacked assembled cores, CRGO wound core and CRGO toroidal core, which are mainly used in power transformer, distribution transformer and dry type transformers, high voltage/medium voltage and low voltage current transformers. VTL's manufacturing premises are located at Vadodara, Gujarat, with a current manufacturing capacity of ~12,000 metric tonnes per annum (MTPA).

Key financial indicators (audited)

VTL	FY2022	FY2023	9MFY2024*
Operating income	233.11	282.61	235.75
PAT	17.87	20.16	16.80
OPBDIT/OI	16.4%	10.4%	9.6%
PAT/OI	7.7%	7.1%	7.1%
Total outside liabilities/Tangible net worth (times)	0.55	0.43	0.40
Total debt/OPBDIT (times)	0.03	0.04	0.04
Interest coverage (times)	14.94	14.99	20.42

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
					Jun 24, 2024	Jun 26, 2023	-	Mar 25, 2022	Apr 08, 2021
1	**Cash credit**	Long term	3.00	--	**[ICRA]A- (Stable)**	[ICRA]BBB+ (Positive)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	**Letter of credit**	Short term	41.98	--	**[ICRA]A2+**	[ICRA]A2	-	[ICRA]A2	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Cash credit	Simple
Short-term – 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**	-	-	-	3.00	[ICRA]A-(Stable)
NA	**Letter of credit**	-	-	-	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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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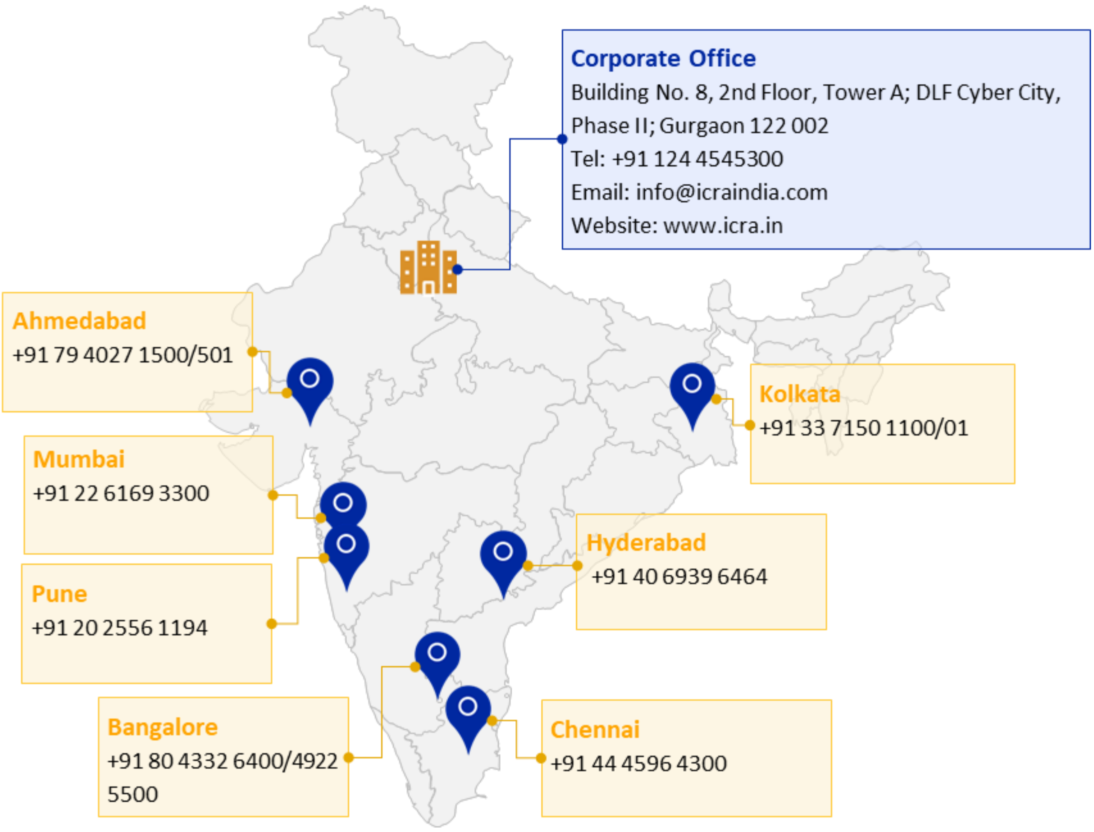

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