

July 16, 2024

Indotech Transformers Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term – Non-fund based	330.00	330.00	[ICRA]A3; reaffirmed
Long term – Fund based - Cash credit	41.00	41.00	[ICRA]BBB- (Stable); reaffirmed
Long term – Term loan	18.00	18.00	[ICRA]BBB- (Stable); reaffirmed
Issuer rating	-	-	[ICRA]BBB- (Stable); reaffirmed
Total	389.00	389.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings factors in Indotech Transformers Limited’s (ITL) healthy financial risk profile, characterised by sustained healthy revenue growth, improved profit margins and comfortable debt coverage indicators.

The ratings also factor in the order book position of ~Rs. 700 crore as of June 2024 to be executed by March 2025-end, which provides near-term revenue visibility. The company’s revenues are expected to grow at a healthy rate in FY2025, given its order book position and a robust order inflow expected in the current fiscal on the back of strong demand from renewables. The operating margins are also expected to remain healthy at ~14% plus, aided by scale benefit. Further, the ratings derive comfort from the extensive experience of the promoter group, Shirdi Sai Electricals Limited (SSEL; rated [ICRA]BBB- (Stable)/[ICRA]A3), and ITL’s proven operational track record in the transformer industry spanning nearly three decades.

However, the ratings are constrained by high customer concentration risk with the top 10 customers accounting for 62% of the total sales in FY2024. Nonetheless, the counterparty risk remains low owing to its reputed clientele. Further, ITL operates in the transformer industry, which is highly fragmented and competitive, resulting in pricing pressures to some extent. The ratings also consider the high working capital intensity of operations and the susceptibility of profitability to the volatility in raw material prices. However, ICRA notes that ~50% of the order mix includes a price variation clause, which mitigates the risk to some extent.

The Stable outlook on the rating reflects ICRA’s expectation that ITL will continue to maintain its credit profile, backed by expected sustained revenue growth, and comfortable debt coverage indicators and liquidity position.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and ITL’s proven track record – ITL’s promoter - SSEL – has a vast experience in the transformer industry, spanning nearly three decades. This, coupled with its extensive presence and proven operational track record in the power and distribution transformer industries, will help establish better relationships with customers and gain new orders. ITL also derives synergistic benefits in procuring raw material at economical prices and economies of scale through joint sourcing, joint lead generation and reduction in manufacturing cost.

Healthy increase in scale and improved margins; strong order book position – In FY2024, the company reported an operating income of ~Rs. 504 crore, a growth of 36%, driven by healthy demand from the capex related to grid strengthening and renewable energy capacity addition. The company had incurred capex in FY2024 to increase the installed capacity to 10,000 MVA from 7,000 MVA. The company's order book stood at ~Rs. 700 crore as of June 2024, which is 1.4 times the operating income reported in FY2024, providing healthy revenue visibility in FY2025. In the current fiscal, the revenue growth momentum will continue, aided by a strong order book position and enhanced production capacity. Further, the operating margin rose to ~14% in FY2024 from ~10% in FY2023, supported by an improved scale of operations. The expected increase in scale is likely to further improve the profitability in FY2025.

Comfortable capital structure and debt coverage metric – ITL's capital structure remains comfortable, aided by its healthy net worth position (Rs. 217 crore as on March 31, 2024) and relatively low dependence on fund-based bank borrowings. The capital structure was robust, as illustrated in TOL/TNW of 0.7 times as on March 31, 2024. The company plans to incur a capex of Rs. 10.00 crore over FY2025, which will be predominantly funded through a term debt. The debt protection metrics are expected to remain comfortable in FY2025, with an estimated interest coverage of 4.8 times and DSCR of 3.77 times.

Credit challenges

High client concentration risk– ITL's revenue from the top 10 clients accounted for around 62% of the total revenues in FY2024 against 61% of the revenues in FY2023, exposing the company to client concentration risk. However, the counterparty risk remains low owing to its reputed clientele, including Adani Energy Solutions Limited, Tata Power Solar, Avaada Power, SAEL Limited etc. and LC-backed sales to most private players. Further, the established relationship with the customers and the execution track record ensure repeat business.

Industry competition– Even though ITL's profit margins improved in FY2023 and FY2024, it continues to be modest due to the competitive pressures. ITL operates in the transformer industry, which is highly fragmented and competitive, limiting its pricing flexibility and margins.

Volatility in raw material prices – ITL's profitability remains exposed to the volatility in raw material prices. Nonetheless, 50% of the contracts in the current order book have price escalation clauses based on the published indices, thereby protecting the margins to an extent. Additionally, ITL exhibits a moderately high working capital intensity (22% in FY2024), inherent in the industry it operates in due to the high receivable period and inventory requirements.

Environmental and Social considerations:

Environmental considerations - The company is exposed to the risk of tightening environmental regulations related to emissions and waste generated from its manufacturing process. It also has a robust waste management system for efficient waste segregation to meet the regulatory requirements. Any disruption in its environmental-related policies can attract significant fines or punitive actions from the regulators.

Social considerations - As a labour-intensive operation, the company is exposed to risks related to disruptions in human resource management, workplace safety and overall employability. The company is also susceptible to the risk of shortage of skilled manpower, which can have an impact on its operations. The recent impact of strike by workers regarding wage hikes had impacted operations for a month. However, the company has implemented measures to address employee welfare, including a social accountability policy.

Liquidity position: Adequate

ITL's liquidity position remains adequate as the company has cushion in the form of unutilised fund-based working capital facility (average utilisation remains at 37% in the past 12 months ended April 2024). The company has monthly LC maturities

of about Rs. 10 crore per month lined up in the near term. However, the estimated cash flows are expected to remain adequate and will facilitate the debt obligations, going forward.

Rating sensitivities

Positive factors – The ratings could be upgraded if the credit profile of the parent improves coupled with a sustained improvement in the operating parameters and profitability.

Negative factors – The ratings could be revised downwards if a deterioration in the scale and profitability weakens the key credit metrics or SSEL’s credit profile. Also, any stretch in the working capital position or any large debt-funded capex that weakens the liquidity position could exert pressure on the ratings. A specific credit metric for downgrade would be an interest coverage of less than 2.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent Company: Shirdi Sai Electricals Limited (SSEL); 75% stake in ITL ICRA expects SSEL to be willing to extend financial and operational support, should there be a need
Consolidation/Standalone	The ratings are based on the standalone financials of Indotech Transformer Limited

About the company

ITL, incorporated in 1992, manufactures power and distribution transformers and various special application transformers and mobile sub-station transformers. The company’s manufacturing plants are in Chennai and Kancheepuram in Tamil Nadu. ITL is a subsidiary of Shirdi Sai Electricals Limited, and SSEL currently holds a 75% stake in ITL. SSEL bought stake from ITL’s erstwhile promoters - Prolec GE (a joint venture between Mexican industrial group Xignux S.A. de C.V., and General Electric Company).

Shirdi Sai Electricals Limited (SSEL; rated [\[ICRA\]BBB-\(Stable\)/\[ICRA\]A3](#)), incorporated in 1994, manufactures power and distribution transformers (up to 20 MVA, 66 kV). The company has a transformer manufacturing facility at Kadapa, Andhra Pradesh. It designs and manufactures power and distribution transformers to cater to the needs of electricity utilities and private enterprises. SSEL also provides solutions for power transmission and distribution systems through its turnkey project division.

Key financial indicators (audited)

ITL	FY2023	FY2024
Operating income	371.2	504.0
PAT	25.7	46.9
OPBDIT/OI	10.0%	13.7%
PAT/OI	6.9%	9.3%
Total outside liabilities/Tangible net worth (times)	0.8	0.7
Total debt/OPBDIT (times)	0.3	0.1
Interest coverage (times)	4.4	5.6

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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years						
		Amount rated (Rs. crore)	Date & rating in FY2025		Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		
			Jul 16, 2024	Jul 10, 2024	Jul 07, 2023	Jan 05, 2023	Jul 18, 2022	Mar 07, 2022	Aug 16, 2021	
1	Cash credit	Long-term	41.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Positive)	[ICRA]BB(Stable)
2	Non-fund based limits	Short-term	330.00	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A4+	[ICRA]A4
3	Term loan	Long-term	18.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Positive)	-
4	Unallocated limits	Short-term	0.00	-	-	-	[ICRA]A3	[ICRA]A3	[ICRA]A4+	[ICRA]A4
5	CEL	Long-term	0.00	-	-	-	-	-	[ICRA]BB+(Positive)	-
6	Issuer rating	Long-term	-	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Positive)	[ICRA]BB(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Non-fund based limits	Very Simple
Term loan	Simple
Issuer rating	NA

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	Non-fund based limits- Letter of credit	NA	NA	NA	94.00	[ICRA]A3
NA	Non-fund based limits- Bank guarantee	NA	NA	NA	236.00	[ICRA]A3
NA	Term loan	FY2022	NA	FY2028	18.00	[ICRA]BBB- (Stable)
NA	Cash credit	NA	NA	NA	41.00	[ICRA]BBB- (Stable)
NA	Issuer rating	NA	NA	NA	-	[ICRA]BBB- (Stable)

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

ANALYST CONTACTS

Girishkumar Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Vikram V

+91 40 6939 6410

vikram.v@icraindia.com

Sanket Thakkar

+91 79 6923 3066

sanket.thakkar@icraindia.com

Menka Sabnani

+91 79 6923 3003

menka.sabnani@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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