

December 01, 2022

High-Volt Electricals Private Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based Cash Credit	12.00	12.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB (Stable)
Short-term - Non-fund based Limits	5.00	5.00	[ICRA] A2; upgraded from [ICRA]A3+
Unallocated amount	6.21	6.21	[ICRA]BBB+ (Stable)/ [ICRA]A2; upgraded from [ICRA]BBB(Stable)/[ICRA]A3+
Total	23.21	23.21	

*Instrument details are provided in Annexure-1

Rationale

The upgrade in the ratings of High-Volt Electricals Private Limited (HVEPL) factors in the healthy growth in revenues in FY2023, aided by strong order inflows amid increasing demand of the locomotive transformers. The company's order book position also improved and remained healthy at Rs.257.4 crore as on September 30, 2022. The order inflows for locomotive transformers have substantially increased in FY2023 after having slowed down in the last two years on account of the pandemic, which led to a slowdown in manufacturing of passenger trains. Moreover, with increased electrification of railways, the demand for locomotive transformers is expected to sustain for the next three-four years. The company is also in the process of adding new types of transformers (auto transformers, traction transformers) to its portfolio, orders of which are expected to start flowing meaningfully from Q3 FY2024. The ratings continue to derive strength from the extensive experience of its management in the transformer industry as well as its comfortable capitalisation and coverage indicators in FY2022 due to low reliance on external borrowings. HVEPL's working capital intensity of operations, as reflected by the net working capital vis-a-vis the operating income (NWC/OI), continued to remain low at 21% as on March 31, 2022.

The ratings, however, are constrained by HVEPL's modest scale of operations with revenues of Rs. 156.9 crore in FY2022 although the same increased in YTD FY2023 as the company registered a turnover of Rs.148.2 crore in 6M FY2023. The ratings are further constrained by the company's concentrated product and customer base as HVEPL's entire sales are derived from the Indian Railways. The ratings also factor in HVEPL's exposure to intense competition from large players, which exerts pressure on its profit margins. The profitability also remains susceptible to fluctuations in raw material prices though presence of price variation clause provides comfort to some extent.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the credit profile of the company is expected to remain strong, supported by healthy demand outlook in the locomotive transformer segment as well as the company's controlled working capital intensity of operations.

Key rating drivers and their description

Credit strengths

Promoters' extensive experience in the transformer industry – HVEPL, established in 1979, was converted into a private limited company in 1995. It commenced operations by manufacturing and repairing distribution transformers for electricity boards before gradually shifting to locomotive transformers. The promoter's technical expertise in the sector enabled HVEPL to diversify its product portfolio and develop new products for the Indian Railways.

Comfortable financial profile – Aided by lower working capital intensity of operations of 21%, HVEPL's financial profile remained comfortable with limited reliance on external debt. The company's capital structure improved over the past years on the back of reducing debt levels and increasing cash flows. With limited reliance on external debt, the overall gearing stood low at 0.2 times as on March 31, 2022, with total outside liabilities vis-a-vis the tangible net worth (TOL/TNW) of 0.7 times as on March 31, 2022 (vis-a-vis 0.6 times as on March 31, 2021). The coverage indicators also remained strong, as reflected by an interest cover of 23.7 times in FY2022, total debt vis-a-vis the operating profit (total debt/OPBDITA) of 0.7 times and net cash accruals vis-a-vis the total debt (NCA/total debt) of 72% as on March 31, 2022.

Healthy revenue growth in FY2023, aided by increased order inflows – HVEPL's scale of operations remained modest on account of reliance on a single industry and a limited product portfolio. In FY2022, the operating income remained in line with FY2021 and stood at a modest level of Rs. 156.9 crore. However, with increased order inflows from the Indian Railways, the company registered net sales of Rs.148.2 crore till September-2022. As per the management, it registered net sales of around Rs.170.0 crore till November 14, 2022. HEVPL had orders in hand of Rs. 257.4 crore (constituting 1.6 times of the operating income for FY2022) as on September 30, 2022 (the order book position stood at Rs. 141 crore as on September 30, 2022). The order inflows for locomotive transformers increased substantially in FY2023 after slowing down in the previous two years on account of the pandemic-induced slowdown in manufacturing of passenger trains. Moreover, with increased electrification of railways, the demand for locomotive transformers is expected to sustain for the next three-four years. These orders have price escalation clause and are expected to be completed by FY2024. Around 91% of the order book comprises orders from the Indian Railways and thus customer concentration is expected to continue in the near term. Moreover, around 90% of the current order book is for manufacturing of 3-phase locomotive transformers. The company is also in the process of adding new types of transformers (auto transformers and traction transformers) to its portfolio, orders of which are expected to start flowing meaningfully from Q3 FY2024.

Credit challenges

Thin operating profit due to tender-based nature of business – HVEPL competes with established players in the industry to bid for tenders. As the orders are awarded to the lowest bidder (L1), the profitability of the company remains under pressure. The company's operating profit margin (OPM) remained thin at 8.6% in FY2022 due to competition and tender-based nature of operations. The profit margins additionally remain susceptible to fluctuations in raw material prices, though presence of price variation clause provides comfort to some extent.

Concentrated customer and product profile – HVEPL's customer base is highly concentrated with sales primarily made to the Indian Railways through Chittaranjan Locomotive Works (CLW) and Diesel Locomotive Works (DLW). Also, the 3-phase locomotive transformer has been the major revenue contributor for the company for the past five fiscals.

Liquidity position: Adequate

The liquidity position of the company is adequate, underpinned by improving cash flows (expected at Rs. 5.2 crore in FY2023 and Rs. 12.2 crore in FY2024) and unutilised working capital limits of Rs. 9.0 crore as on September 30, 2022. HVEPL's average utilisation of fund-based and non-fund based limits remained moderate at 35% over the last 12 months ended on October 31, 2022 and 62% over the last 12 months ended on June 30, 2022. Against this, the annual repayment obligations are to the tune of Rs. 0.5 crore over FY2023 and FY2024. The company does not have any major capital expenditure plans, other than the regular maintenance capex.

Rating sensitivities

Positive factors – ICRA could upgrade HVEPL's ratings if the company is able to achieve a substantial increase in its scale of operations and net worth position, while maintaining healthy debt coverage metrics.

Negative factors – Pressure on HVEPL’s ratings could arise if the credit profile and the liquidity position of the company weaken due to a sharp decline in revenues and profit margins or any large debt-funded capex or a stretch in the working capital intensity of operations. Weakening of return on capital employed (ROCE) to below 16% on a sustained basis would be a negative rating factor.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of HVEPL. List of entities considered in the consolidated financials are given in Annexure 2

About the company

Promoted by Late Rajesh Shah in 1979 as a proprietorship concern, High-Volt Electricals was converted into a private limited company in 1995 and was renamed as HVEPL. The company commenced operations with manufacturing and repairing of distribution transformers for electricity boards. However, it ventured into manufacturing of locomotive transformers due to delay in realisations from the electricity department. The company is equipped with manufacturing and repairing of freight transformers (conventional as well as 3-phase drive loco main transformers up to 7,550 KVA), distribution transformers (below 1,000 KVA), power transformers (7 MVA, 8 MVA and 18 MVA), and rectifiers for locomotives. The company’s manufacturing unit is ISO 9001-2008 certified and is located at MIDC, Tarapur, Boisar (Maharashtra).

Effective April 1, 2020, Urja Transformers (Bombay) Private Limited was amalgamated into High-volt Electricals Private Limited. There are no business transactions in this company at present.

Key financial indicators (Consolidated)

	FY2021 (Audited)	FY2022 (Audited)
Operating Income (Rs. crore)	155.1	156.9
PAT (Rs. crore)	8.9	8.9
OPBDIT/OI (%)	8.8%	8.6%
PAT/OI (%)	5.7%	5.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.7
Total Debt/OPBDIT (times)	0.6	0.7
Interest Coverage (times)	9.4	23.7

Source: Financial statements of HVEPL and ICRA research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company, ICRA Research; All ratios as per ICRA’s calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Dec-01-2022	Oct-22-2021	3-Sep-20	3-Oct-19
1	Cash Credit	Long-term	12.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Letter of Credit	Short-term	2.00	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
3	Bank Guarantee	Short-term	3.00	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
4	Unallocated Amount	Long-term and Short-term	6.21	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	-
5	Term Loan	Long-term	-	-	-	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Short-term Non Fund-based	Simple
Long-term and Short-term Unallocated	Not Applicable

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, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	12.00	[ICRA]BBB+ (Stable)
NA	Letter of Credit	-	-	-	2.00	[ICRA]A2
NA	Bank Guarantee	-	-	-	3.00	[ICRA]A2
NA	Unallocated amount	-	-	-	6.21	[ICRA]BBB+ (Stable)/ [ICRA]A2

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis:

Sr.	Company Name	Consolidation Approach
1	Urja Transformers (Bombay) Private Limited	Full Consolidation

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1100

jayanta@icraindia.com

Priyesh Ruparelia

+91 22 6169 3328

priyesh.ruparelia@icraindia.com

Sakshi Suneja

+91 22 6169 3349

sakshi.suneja@icraindia.com

Taanisha Sharma

+91 22 6169 3379

Taanisha.sharma@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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

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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



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