

March 16, 2017

Ascott Electricals Private Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Long term: Fund based limits	4.0	[ICRA]B+(Stable)/reaffirmed
Short term: Fund based limits	0.2 (Revised from 1.0)	[ICRA]A4/reaffirmed
Short term: Non Fund based limits	5.0	[ICRA]A4/reaffirmed

**Instrument details are provided in Annexure-1*

Rating Action

ICRA has reaffirmed the long-term rating of [ICRA]B+ (pronounced ICRA B plus) outstanding on the Rs. 4.00 crore long term fund based facilities of Ascott Electricals Private Limited (“AEPL”/ “the company”). The outlook on the long term rating is stable. ICRA has also reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) assigned to the Rs. 0.20 crore (revised from Rs. 1.00 crore) fund based limits and Rs. 5.00 crore non-fund based limits of the company.

Rationale

The reaffirmation of ratings takes into account the long-standing experience of the promoters spanning over three decades in transformer manufacturing industry. The ratings are, however, constrained by significantly high debtor levels on account of delays in payments from Tamil Nadu Generation and Distribution Corporation Limited (“TANGEDCO”); and the company’s modest scale of operations in a highly competitive electrical equipment industry. Further the ratings are constrained by the company’s financial risk profile which is marked by leveraged capital structure, weak coverage indicators; tight liquidity due to stretched receivables position; and exposure to customer concentration risks, since the company derives ~90% of its revenue from TANGEDCO. However, considering the orders in hand and expected orders in coming months, revenue stream is expected to improve for the near term.

Going forward, any un-fulfillment of expected orders leading to decline of operating income in FY2018 and continuance of stretched working capital cycle will be key rating sensitivities for downward movement of rating, while significant scaling up of operations and improvement in working capital cycle will be key credit positives.

Key rating drivers

Credit Strengths

- Significant experience of the promoters in the transformer manufacturing industry for more than three decades
- Caters largely to TANGEDCO orders; Price variation clauses in the orders supports margins

Credit Weakness

- Sharp decline in revenues in FY2016 due to Chennai floods; stagnation in revenue in FY2017 due to reduced orders from TANGEDCO
- High debtor days due to delay in payments from TANGEDCO leading to high working capital intensity
- High customer concentration risks with ~90% of revenues from TANGEDCO
- Financial profile characterized by high gearing, moderate coverage indicators and stretched liquidity

Description of key rating drivers highlighted above:

AEPL is engaged in manufacturing transformers, mainly power, distribution and instrument transformers (also known as metering sets). The company manufactures oil-cooled transformers with capacities ranging from 100 KVA to 50 MVA. The company caters mainly to Tamil Nadu Generation and Distribution Corporation Limited (“TANGEDCO”, erstwhile Tamil Nadu Electricity Board) Limited with about 90% of the company’s revenues being derived from sales to TANGEDCO, reflecting high single customer concentration risk. The company however, has significant experience in the industry and has long established relationships with TANGEDCO and has been able to generate repeat orders from them, which mitigates the risk to an extent.

The company’s scale of operations remains modest which in turn restricts operational and financial flexibility to an extent. AEPL’S operating income had witnessed a 35% decline in FY2016 due to shutdown of operations on account of Chennai floods when both the manufacturing units in Saidapet and Thirumudivakkam were severely affected by floods due to which operations were shut for three months. Although the operations resumed fully in February 2016, there has not been any improvement in the revenues in the first 10 months of FY2017 due to reduced orders from TANGEDCO. The impact of low orders was further exacerbated by the increase in overhead costs which led to deterioration in the operating and net margins. However, the presence of price variation clause links the sales realization to variation in raw materials, thus protecting the margins of the company to some extent.

The debt profile of the company is largely skewed towards working capital borrowings. AEPL’s capital structure is leveraged as reflected in gearing level of 1.6x as on January 31, 2017. The debt levels remain high due to near full utilization of working capital borrowings. The gearing levels also remained high due to meager accretion to reserves. Moreover, AEPL’s operations are highly working capital intensive in nature. The company derives ~90% of its revenue from TANGEDCO and faces huge delay in collection of payment from it. The company largely manages its working capital cycle by stretching its creditors and utilizing the working capital borrowings. Further, the company’s key raw materials are procured against firm orders; hence the company has minimal inventory holding of 30 days as on January 31, 2017.

Links to applicable Criteria

[Corporate Credit Rating –A Note on Methodology](#)

About the Firm:

Incorporated in 2005, Ascott Electricals Private Limited (AEPL) is engaged in manufacturing electrical transformers such as distribution transformers, power transformers and metering sets. The company has two manufacturing facilities viz., Saidapet and SIDCO Industrial Estate, Thirumudivakkam (both in Chennai, Tamil Nadu) in a total area of 20,000 sq ft. The company’s operations are managed by its promoters, Mr. P.C. Alexander and his son, Mr. Arun Alexander.

For 10M FY2017, the company has reported a profit before tax of Rs 0.05 crore on an operating income of Rs 20.4 crore as against a net profit of Rs 0.4 crore on an operating income of Rs 22.6 crore in FY2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years	
		Type	Rated amount (Rs. Crores)	Month-year & Rating FY2017	Month- year & Rating in FY2017	Month- year & Rating in FY2015
				March 2017	August 2016	December 2014
1	Fund based facility	Long Term	4.00	[ICRA]B+(Stable)	[ICRA]B+	[ICRA]B+
2	Fund based facility	Short term	0.20	[ICRA]A4	[ICRA]A4	[ICRA]A4
3	Non Fund based facility	Short term	5.00	[ICRA]A4	[ICRA]A4	[ICRA]A4

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	4.00	[ICRA]B+(Stable)
SME Credit	-	-	-	0.20	[ICRA]A4
Bank Guarantee	-	-	-	5.00	[ICRA]A4

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