

TAG Corporation ^{Revised}

November 20, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	0.0	25.0	[ICRA]BBB+ (Stable); Reaffirmed
Fund based- Working Capital Facilities	25.0	25.0	[ICRA]BBB+ (Stable); Reaffirmed
Non-fund based- Bank Facilities	50.0	50.0	[ICRA]A2 ; Reaffirmed
Total	75.0	100.0	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA BBB plus) to the Rs. 25.0-crore¹ fund based facilities and Rs. 25.0 crore term loan facilities. ICRA has also reaffirmed the short-term rating of [ICRA]A2 (pronounced ICRA A two) to the Rs 50.0 crore non-fund based bank facilities of Tag Corporation. (Tag or the firm)². The outlook for the long-term rating is 'Stable'.

Rationale

The reaffirmation of ratings favourably factors into consideration the established presence of the firm in transmission hardware industry and the long term prospects of the industry owing to the planned investments in the power transmission sector. The ratings also continue to factors in the established relationships with Power Grid Corporation of India Limited (PGCIL) and EPC contractors in the power transmission sector. Further, the ratings continue to factors into consideration the healthy financial profile of the firm characterized by healthy profitability, low gearing and adequate coverage metrics.

Nonetheless, the ratings remain constrained by stagnant net-worth position, due to withdrawals by the partners; nevertheless gearing continues to be comfortable. The firm is susceptible to the risk of timely execution of projects by the EPC contractor; any delays would stretch the working capital requirement of the firm. The profitability is also susceptible to the risk of fluctuation in raw material prices as most of the orders are fixed-priced contracts. ICRA also takes note of debt-funded capital expansion and resulting significant repayment obligations going forward.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes TAG Corporation will continue to benefit from the extensive experience of its partners. The outlook may be revised to 'Positive' if the scale of operation increases significantly, while sustaining the profitability and liquidity position at the current levels. The outlook may be revised to 'Negative' if there is lower than expected cash accruals, any adverse moment in operating margins. Further, any significant withdrawals, over and above ICRA's expectation, weakening the capital structure will also trigger a negative outlook.

Key rating drivers

Credit strengths

An established player in the transmission hardware industry– The firm was established in 1972 for manufacturing and supplying hardware for electrical and transmission line; the firm has been continuously involved in several high value projects including the first 500kV high voltage direct current (HVDC) line and the first 800kV HVDC line.

Premium clientele base and outstanding order book provide revenue visibility over the near term– TAG caters to a reputed clientele, largely comprising of EPC contractors, including several prominent players in the transmission industry. The healthy relationship of the firm with its premium clientele ensures repeat orders. The existing outstanding orders and the orders in pipeline provide revenue visibility for the near term.

Financial profile of the firm characterized by healthy profitability, low gearing and adequate coverage metrics– The financial profile of the firm is characterised by favourable gearing and healthy coverage Indicators. Gearing and coverage indicators continue to be healthy in FY2017 primarily due to healthy accruals, current healthy liquidity position of the firm.

Credit weaknesses

Capital withdrawals reduced the net worth, nevertheless gearing continues to remain comfortable – The capital withdrawals continue to remain high, resulting in a stagnant net-worth position. Nonetheless, the capital structure continues to remain at a comfortable level, with low gearing as on March 31, 2017.

Stagnant growth in operating income – The operating income of the firm is stagnant over the past 5 years, with de-growth in FY2016 due to Chennai floods, albeit in FY2017 the top-line grew marginally. The order book continues to concentrate on top-5 customers.

Margins susceptible to the risk of raw material fluctuations – The operating margins of the firm reduced to 14% in FY2017, from 18.5% in FY2016, due to volatility in raw material prices. Part of the orders undertaken by the firm has price variation clauses and hence any increase in raw material prices will be detrimental to the profitability in the near-term.

Significant repayment obligation due to debt funded capex – The firm is undertaking debt-funded capital expansion for Rs.50 crore for expansion and modernisation of new premises. Going forward, despite repayment obligation, capital structure, debt protection metrics are expected to remain healthy.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the firm:

TAG Corporation (TAG) was established in the year 1972 by Mr R T Chari and Mr R V Gopalan for manufacturing and supplying hardware for electrical transmission lines, such as connectors and accessories for both insulators and conductors in transmission lines. Initially, the firm manufactured products for 66kV and 110kV lines, but now focuses on 400kV and higher capacity transmission lines. TAG was a supplier for the first 400kV transmission line project in the country in 1974 and was involved in other pioneering projects like the first 500kV high voltage direct current (HVDC) line and the first 800kV HVDC line. TAG caters to a reputed clientele, including industry majors such as Larsen & Toubro Ltd., Power Grid Corporation of India Ltd., Tata Projects Ltd., Kalpataru Power Transmission Ltd., among others. TAG Corporation has manufacturing facilities in Chromepet.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	152.0	170.2
PAT (Rs. crore)	14.9	13.2
OPBDIT/ OI (%)	18.5%	13.9%
RoCE (%)	29.2%	26.6%
Total Debt/ TNW (times)	0.1	0.2
Total Debt/ OPBDIT (times)	0.4	0.6
Interest coverage (times)	11.3	7.4
NWC/ OI (%)	21.1%	23.2%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating July 2017	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Term loan	Long Term	25.0		[ICRA]BBB+ (stable)	-	-	-
2 Cash credit facility	Long Term	25.0		[ICRA]BBB+ (stable)	[ICRA]BBB+ (stable)	[ICRA]BBB+ (stable)	[ICRA]BBB+ (stable)
3 Bank Guarantee and letter of credit	Short Term	50.0		[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Nov-2016	NA	Mar- 2026	25.0	[ICRA]BBB+ (stable)
NA	Cash credit facility	Nov-2016	NA	-	25.0	[ICRA]BBB+ (stable)
NA	Letter of Credit & Bank Guarantee	Nov-2016	NA	-	50.0	[ICRA]A2

Source: TAG Corporation.

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