April 08, 2021

Vilas Transcore Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	5.00	5.00	[ICRA]BBB+ (Stable); reaffirmed
Term Loan	1.45	1.45	[ICRA]BBB+ (Stable); reaffirmed
Letter of Credit	67.00	67.00	[ICRA]A2; reaffirmed
Derivative Limits	1.82	1.82	[ICRA]A2; reaffirmed
Total	**75.27**	**75.27**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation in ratings continues to factor in Vilas Transcore Limited's (VTL) healthy financial risk profile, characterised by comfortable capital structure and debt coverage indicators. ICRA also takes note of VTL's adequate liquidity position, supported by healthy cash accruals and undrawn working capital bank facilities. The ratings also reflect the promoter's extensive experience and established track record in the transformer industry, along with the company's reputed client base.

The ratings, however, are constrained by the pressure on the operating margin over FY2019-2020, owing to higher input costs and bad debt write-offs. The ratings also factor in the company's exposure to intense competition in the highly fragmented transformer industry due to the presence of various organised as well as unorganised players. ICRA also takes into account the vulnerability of the company's profitability to fluctuations in raw material (cold-rolled grain-oriented steel CRGO) prices and foreign currency exchange rates against the backdrop of high import dependence for raw material requirements. The ratings also factor in the high working capital intensity owing to the elongated receivables cycle and the high inventory holdings needed to ensure continuity of operations due to the long lead time in import of raw materials.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the company will continue to benefit from the extensive experience of its promoters in the transformer industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in transformer industry – VTL was established in 1995 by Mr. Nilesh Patel, who has two-decade long experience in the transformer 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 the domestic transformer manufacturers and has minimal exports. VTL's customer profile comprises reputed and established transformer manufacturers with whom it has built strong relationship over the years, evident from its track record of repeat orders.

Healthy financial risk profile - The company's net worth was healthy, at Rs. 77.08 crore as on March 31, 2020, on the back of healthy accretion to reserve over the years. On the other hand, the total debt moderated to Rs. 7.70 crore as on March 31, 2020 from Rs. 18.64 crore as on March 31, 2019, following lower utilisation of working capital limits. The healthy net worth base and the modest debt level continued to reflect a comfortable capital structure, as evident from the gearing and TOL/TNW of 0.10 times and 0.34 times respectively as on March 31, 2020. The debt coverage indicators moderated marginally in FY2020 due to a decline in profitability. However, it continued to remain above-average, with an interest coverage of 3.55 times (3.62 times in FY2019) and DSCR of 1.94 times in FY2020 (2.39 times in FY2019). The capital structure and coverage indicators are estimated to remain comfortable in FY2021 with stable debt level and improvement in net worth base.

Credit challenges

Decline in operating margin - The operating margin declined over the last two fiscals as the company was not able to pass on the increase in raw material price rise to the customers because of intense market competition. The company's operating margin declined to 5.31% in FY2020 from 7.67% in FY2019 owing to a rise in input costs and bad debt write-offs of Rs. 1.50 crore. Moderation in profitability also impacted return indicators, as evident from RoCE of 6.50% in FY2020 compared with 14.96% in FY2019. The operating margin is expected remain ~5.0-5.50% in FY2021.

Intense competition – 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 also resulted in stable revenues in the past two fiscals and moderate scale of operations.

High working capital intensity – VTL's raw material requirement is primarily met through imports, and the long lead time involved in imports has resulted in high inventory holdings. Elongated receivables increased NWC/OI to 32% as on March 31, 2020 from 27% as on March 31, 2019. ICRA expects the working capital intensity to continue to be high, ~30-35% over FY2021-22, on the back higher receivable period. The working capital intensity is expected to remain high (~30%) over FY2021-22.

Vulnerability of profitability to fluctuations in raw material prices and forex rates – VTL's margins are primarily affected by fluctuations in CRGO steel prices, which is the company's major raw material. Further, since a major part of the raw material requirement is met through imports, the company is exposed to fluctuation in foreign currency exchange rates. However, the risk is partly mitigated through derivative contracts.

Liquidity position: Adequate

VTL's liquidity position is adequate as evident from the satisfactory accruals against the debt repayment obligations and the healthy cushion in the form of undrawn WC facility of Rs. 5.00 crore and Rs. 29.24 crore in fund-based and non-fund based facility as on February 28, 2021. The company had liquid investment of Rs. 6.65 crore as on February 28, 2021, which also supports liquidity position. Moreover, the promoter also infuses unsecured loans in the business as and when required to support the incremental working capital requirement. Expected annual cash accruals of ~Rs. 5.00-9.00 crore over FY2021-23 are expected to adequately address the incremental working capital requirement and maintenance capex.

Rating sensitivities

Positive factors –

- ICRA may upgrade the rating if the company demonstrates a sustained improvement in its revenues and operating profit margin.

Negative factors –

- ICRA may downgrade the rating in case of any substantial decline in the scale of operations or moderation in margins on a sustained basis.
- Large debt-funded capex or stretch in working capital cycle leading to deterioration in key credit metrics and liquidity. Specific credit metrics that may lead to a rating downgrade is CORE ROCE declining to less than 15% 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 its operations in 1995 as a proprietorship concern of Mr. Nilesh Patel, a Vadodara-based first-generation entrepreneur. It was subsequently converted into a closely-held public limited company in 2007. The company manufactures transformer laminations, coils and cores made of cold rolled grain oriented (CRGO) steel. VTL's manufacturing facility is located at Vadodara (Gujarat), and has a capacity of ~17,200 metric tonne per annum (MTPA). Mr. Nilesh Patel is also the promoter of one more company, Jayesh Electricals Limited (JEL), which manufactures different types of transformers.

In FY2020, the company reported a net profit of Rs. 3.60 crore on an OI of Rs. 162.34 crore, compared to a net profit of Rs. 8.44 crore on an OI of Rs. 209.87 crore in the previous year.

Key financial indicators (audited)

Vilas Transcore Limited - Standalone	FY2019	FY2020
Operating Income (Rs. crore)	209.8	162.3
PAT (Rs. crore)	8.4	3.6
OPBDIT/OI (%)	7.7%	5.3%
RoCE (%)	14.9%	6.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.3
Total Debt/OPBDIT (times)	1.2	0.9
Interest Coverage (times)	3.6	3.5
DSCR (times)	2.4	1.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 30, 2020 (Rs. crore)	Date & Rating in	FY2020	FY2019	FY2019
					April 08, 2021	Mar 05, 2020	Feb 25, 2019	May 03, 2018
1	Cash Credit	Long Term	5.00	0.00^	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
2	Term Loan	Long Term	1.45	0.00^	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
3	Letter of Credit	Short Term	67.00	-	[ICRA] A2	[ICRA] A2	[ICRA] A2	[ICRA] A3+
4	Derivative Limits	Short Term	1.82	-	[ICRA] A2	[ICRA] A2	[ICRA] A2	[ICRA] A3+

Source: VTL financials

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	Cash Credit	-	-	-	5.00	[ICRA]BBB+ (Stable)
NA	Term Loan	Mar-2016	-	Mar-2021	1.45	
NA	Letter of Credit	-	-	-	67.00	[ICRA]A2
NA	Derivative Limits	-	-	-	1.82	

Source: *Vilas Transcore Limited*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

Source: *Company data*

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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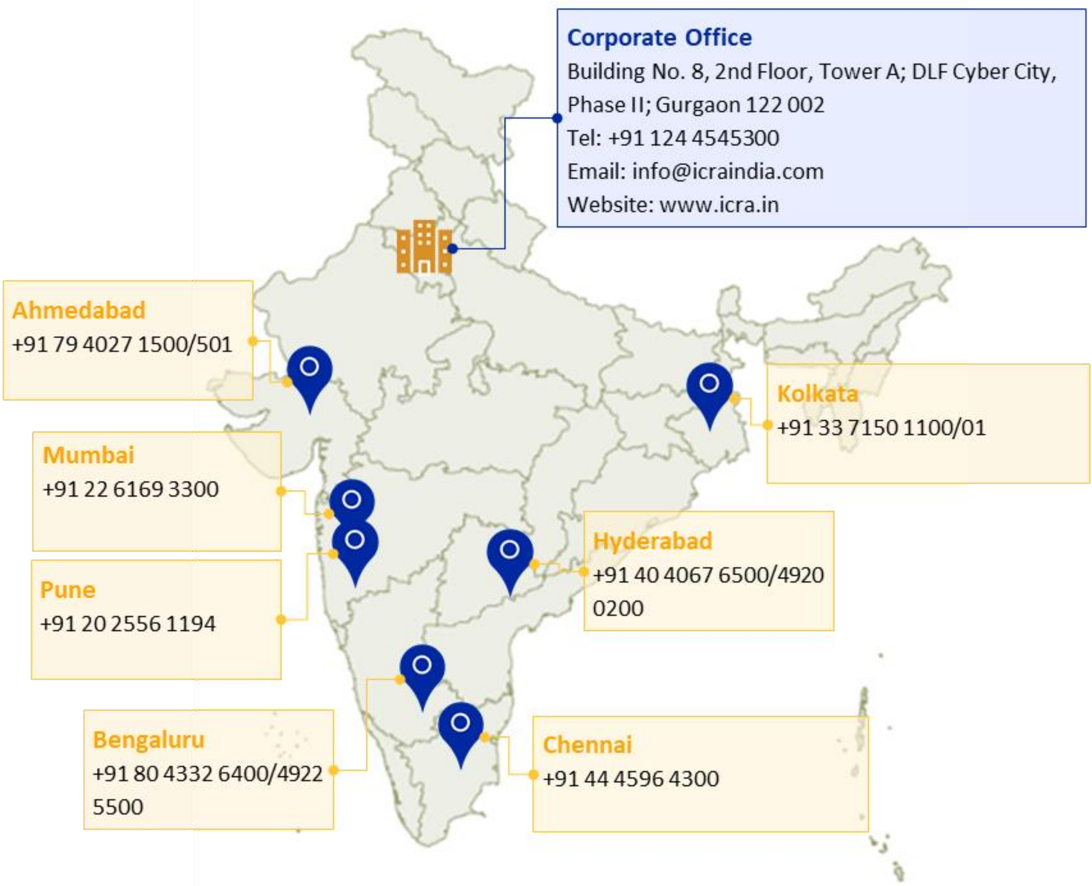

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