March 05, 2020

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**	

Rationale

The reaffirmation in ratings continues to factor in Vilas Transcore Limited's (VTL) above average 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 decline in the operating margin in FY2019 and the current fiscal, owing to rising 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.

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, indicated by its track record of repeat orders. Further, the company added few new customers in FY2019, which supported revenue growth.

Healthy financial risk profile - The company's net worth was healthy at Rs. 73.49 crore as on March 31, 2019 on the back of healthy accretion to reserve over the years. On the other hand, presence of debt in the capital structure moderated to Rs. 18.64 crore as on March 31, 2019 from Rs. 24.26 crore as on March 31, 2018, following lower utilisation of working capital limits. The healthy net worth base and the modest debt level resulted in a comfortable capital structure, as evident from gearing and TOL/TNW of 0.25 times and 0.77 times respectively as on March 31, 2019. The debt coverage indicators moderated marginally in FY2019 due to decline in profitability. However, it continued to remain above-average with an interest coverage of 3.62 times (6.22 times in FY2018) and DSCR of 2.39 times in FY2019 (4.34 times in FY2018). The capital structure and coverage indicators are estimated to remain comfortable in FY2020 with stable debt level and improvement in net worth base.

Credit challenges

Decline in operating margin - The operating margin is declining as the company is not able to pass on the increase in raw material price to the customers because of intense market competition. The company's operating margin declined to 7.67% in FY2019 from 11.60% in FY2018 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 14.96% in FY2019 compared with 24.24% in FY2018. The operating margin is expected remain ~6.5-7.00% in FY2020.

Intense competition – The transformer lamination, cores and coils manufacturing industry are highly fragmented because of the presence of various organised and unorganised players, leading to intense competition. This has also resulted in primarily 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. Timely recovery of receivables and lower inventory holding supported by healthy volume off-take, improved the working capital intensity to 27% in FY2019 from 36% in FY2018. However, it continued to remain high. The working capital intensity is expected to remain high ~30% over FY2020-22 due to elongated receivables and high inventory holding requirement.

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 major raw material of the company. 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 robust accruals against the debt repayment obligations and healthy cushion available in the form of undrawn WC facility of Rs. 3.24 crore and Rs. 26.33 crore in fund-based and non-fund based facility as on March 31, 2019. The company had liquid investment of Rs. 3.56 crore as on December 31, 2019, which also supports liquidity position. Moreover, the promoter also infuses USLs in the business as and when required to support incremental working capital requirement. Expected annual cash accruals of Rs. 7.00-10.00 crore over the next three fiscals is expected to adequately address the incremental working capital requirement and maintenance capex.

Rating sensitivities

Positive triggers: ICRA may upgrade the rating if the company demonstrates a sustained improvement in its revenues and operating profit margin. Specific credit metrics that may lead to a rating upgrade is the improvement in ROCE to more than 20% on a sustained basis.

Negative triggers: ICRA may downgrade the rating in case of any substantial decline in the scale of operations or moderation in margins on sustained basis. Large debt-funded capex or a stretch in the working capital cycle that deteriorates the liquidity is a key credit metric. Specific credit metrics that may lead to a rating downgrade is ROCE declining to remain less than 12% 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 facilities are located at Vadodara (Gujarat), and has a manufacturing 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 type of transformers.

In FY2019, the company reported a net profit of Rs. 8.44 crore on an OI of Rs. 209.87 crore, compared to a net profit of Rs. 8.26 crore on an OI of Rs. 179.81 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	179.81	209.87
PAT (Rs. crore)	8.26	8.44
OPBDITA/OI (%)	11.60%	7.67%
ROCE (%)	24.24%	14.96%
Total Debt/TNW (times)	0.37	0.25
Total Debt/OPBDITA (times)	1.16	1.16
Interest Coverage (times)	6.22	3.62
DSCR	4.34	2.39

Source:VTL financials and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

All figures in Rs. Crore

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2019	FY2018
					05-Mar-2020	25-Feb-19	3-May-18	06-Apr-17
1	Cash Credit	Long Term	5.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Term Loan	Long Term	1.45	0.34^	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Letter of Credit	Short Term	67.00	0.00	[ICRA] A2	[ICRA] A2	[ICRA] A3+	[ICRA] A3+
4	Derivative Limits	Short Term	1.82	-	[ICRA] A2	[ICRA] A2	[ICRA] A3+	[ICRA] A3+

^Outstanding as on December 31, 2019; 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	NA	NA	NA	5.00	[ICRA]BBB+ (Stable)
NA	Term Loan	FY2016	NA	FY2021	1.45	[ICRA]BBB+ (Stable)
NA	Letter of Credit	NA	NA	NA	67.00	[ICRA]A2
NA	Derivative Limits	NA	NA	NA	1.82	[ICRA]A2

Source: Vilas Transcore Limited

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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.

For more information, visit www.icra.in

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