

Press Release

Associated Transformers Private Limited

June 01, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 7.50 Cr.
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B**' (read as **ACUITE B**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.7.50 crore bank facilities of Associated Transformers Private Limited. The outlook is '**Stable**'.

Established in 1994, Associated Transformer Pvt. Ltd. is based out of Dindigul (Tamil Nadu). The company is engaged in manufacturing of distribution transformers. The company mainly supplies transformers to Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO). The entity is promoted by Mr. K.R. Thangaraj, who has almost three decades of experience in transformer manufacturing business.

About the Group

Associated Transformer Private Limited has an associate concern, namely, Sarayu Engineering established in 1989, which is also engaged in manufacture of distribution transformers. The group majorly deals with Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO). The group is promoted by Mr. K.R. Thangaraj.

Analytical Approach

Acuite has considered the consolidated business and financial risk profiles of Associated Transformer Private Limited (ATPL) and Sarayu Engineering, hereinafter referred to as 'The group'. The consolidation is mainly on account of similarities in the lines of business, strong operational, financial synergies and common management.

Key Rating Drivers

Strengths

- Government scheme and regulation to prop up demand:**

Under Integrated Power Development Scheme (IPDS) and Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) schemes, government spending on T&D infrastructure would result in expected spending on procurement of distribution transformer of around Rs.6000 crore in next four years. With Tamil Nadu joining UDAY scheme, the state government would take over 75 percent debts of Rs.30,420 crore of TANGEDCO and the balance debt will be taken by way of issuing Discom Bonds. This would save TANGEDCO of Rs.950 crore in annual interest cost due to debt reduction and reduced interest cost of issuance of government backed debt. This would improve the financial health of TANGEDCO. Further, Ministry of Power (MoP) has introduced standardizing norms under BIS-1180/2014 to bring back quality manufacturing in the sector. This is expected to bring down the number of players in the industry from current size of 1000 to half of it. Since ATPL and Sarayu Engineering are BIS certified manufacturer, with central government stipulation on the quality of transformer purchased through the above mentioned schemes

would directly benefit ATPL in medium term.

- **Healthy order book position:**

After muted orders from TANGEDCO for last 2 years, the group has healthy order book position of 35.99 crore as on 08 May, 2018 and also the group has quoted order delivery of Rs.2.00 crore for the month of May. ACUITE believes that consolidation of players in the industry and Healthy order book provides revenue visibility for the medium term.

Weaknesses

- **Working capital intensive operations:**

The operations are working capital intensive as reflected in high Gross Current Assets (GCA) of 222 days as on March 31, 2018 (Provisional) compared to 195 days as on March 31, 2017 due to high debtor levels. Receivable days in FY2018 stood at 112 compared to 149 in FY2017. Inventory days soared in FY2018 at 107 as against 17 in FY2017. High GCA weighs down the profitability in terms of interest cost. Acuité believes that operations will continue to be working capital intensive over the medium term.

- **Below- average financial risk profile:**

The average financial risk profile of the group is marked by below-average margin, moderate liquidity level and moderate debt protection metrics. EBITDA margin improved to 3.39 percent as on March 31, 2018 (Provisional) as compared to 1.34 percent as on March 31, 2017. PAT margin improved to 0.49 percent as on March 31, 2018 (Provisional) as compared to -0.50 percent as on March 31, 2017. Current ratio improved to 1.28 times as on March 31, 2018 (Provisional) compared to 1.07 times as on March 31, 2017. Coverage indicators, such as, Interest Coverage Ratio (ICR) improved to 1.47 times as on March 31, 2018 (Provisional) as compared to 1.43 times as on March 31, 2017. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.04 times as on March 31, 2018 (Provisional).

- **Customer Concentration Risk and Tender Nature of business:**

The group derives over 80 percent of its revenue on selling distribution transformers to TANGEDCO. This places the group at a significant customer concentration risk. This leaves it vulnerable to pricing power and completely exposed to capex cycle of TANGEDCO. The group deals mainly with TANGEDCO which provide orders on tender basis. Going forward, the company's ability to bid for large orders and qualify for the same remains to be seen.

Outlook: Stable

Acuité believes that the outlook on the group will remain 'Stable' over the medium term on account of the experience of the management. The outlook may be revised to 'Positive' if the financial risk profile of the group improves substantially while improving its revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in its working capital management leading to deterioration of its financial risk profile and liquidity.

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	12.48	12.61	29.88
EBITDA	Rs. Cr.	0.35	0.14	0.55
PAT	Rs. Cr.	0.05	-0.05	0.35
EBITDA Margin	(%)	2.80	1.11	1.85
PAT Margin	(%)	0.41	-0.41	1.17
ROCE	(%)	4.82	3.45	24.58
Total Debt/Tangible Net Worth	Times	0.65	0.86	0.74
PBDIT/Interest	Times	1.47	1.43	2.72
Total Debt/PBDIT	Times	7.74	9.43	3.17
Gross Current Assets (Days)	Days	222	162	162

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.ACUIE.in/criteria-manufacturing.htm>
- Consolidation Of Companies - <https://www.ACUIE.in/criteria-consolidation.htm>
- Financial Ratios And Adjustments - <https://www.ACUIE.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUIE B / Stable
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	5.00	ACUIE A4
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUIE A4

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About Acuité Ratings & Research:

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