

Press Release

Mamta Transformers Private Limited

September 27, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE B+/ Stable (Reaffirmed)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and the short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.10.00 crore bank facilities of Mamta Transformers Private Limited (MTPL). The outlook is '**Stable**'.

The rating reaffirmation is based on experienced management with moderate order book position; the rating continues to factor in working capital intensive nature of operations, modest revenues and tender based business.

Mamta Transformers Private Limited (MTPL), incorporated in 1995, is an Indore, Madhya Pradesh based company promoted by Mr. Vineet Ora and Mr. R.L. Ora, who are having more than two decades of experience in the transformer manufacturing industry. MTPL is engaged in manufacture and repair of transformers and transformers tanks and is an approved vendor for the state electricity boards of Madhya Pradesh, Tamil Nadu and Maharashtra. MTPL can manufacture transformers upto 1000 KVA.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of MTPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

MTPL has been engaged in the manufacturing of transformers since 1995. The promoters of the company, Mr. Vineet Ora and Mr. R.L. Ora, has experience of more than two decades in the power sector. With the promoters' extensive industry experience and timely execution of projects, MTPL has been able to establish long standing relationship with its clients with repeat orders.

- **Comfortable order book position**

MTPL supplies power transformers for government organisations based out of Madhya Pradesh, Tamil Nadu and Maharashtra such as Tamil Nadu Generation and Distribution Corporation (TANGEDCO), Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Ltd. (MPPKVCL) among others. The company has order book of Rs. 18.38 crore as on August, 2019 providing revenue visibility over the medium term. The entity also generated a revenue of Rs. 3.59 crore (provisional) from April, 2018 to June, 2019. Acuite believes that established relationship with the principals and presence for over two decades is expected to support in repeat business.

Weaknesses

- **Below average financial risk profile**

MTPL's financial risk profile is below average, marked by modest networth, high gearing and moderate debt protection metrics.

MTPL's networth is modest at around Rs. 2.86 crore as on March 31, 2019 (provisional). The networth levels have, more or less, remained stable over the last three years through FY2019 on account of modest accretion to reserves during the same period.

The company has followed a moderately aggressive financial policy in the past, the same is reflected through its peak gearing levels of 2.37 times as on March 31, 2019 (provisional). The company incurred

capex of Rs.0.61 crore over the last three years, while its incremental working capital requirement over the same period to support the increase in scale of operations has been around Rs.4.68 crore; however, its accruals are modest in the range of Rs. 0.16-0.23 crore over the same period. The gearing, however, is expected to be moderate at 1.60 times as on March 31, 2020 on the back of modest cash accruals.

The revenues of the company have remained stable at around Rs.16.06 crore during FY19. The healthy profitability levels coupled with high debt levels has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY2019 were moderate at 0.05 per cent and 1.37 times, respectively.

Acuite expects the financial risk profile to improve over the medium term on account of improving profitability and improvement in the cash accruals.

• Working capital intensive nature of operations

MTPL's operations are working capital intensive, as is reflected by its gross current asset (GCA) days of around 340 days as on March 31, 2019 (provisional). The company's inventory of around 113-143 days mainly consists of raw material of 71-95 days and finished goods of 39-55 days. MTPL extends a credit period of around 30-34 days to its customers. On the other hand, the company gets credit of 45-90 days from its suppliers. Owing to the high inventory period, the reliance on working capital limits is high, leading to almost full utilisation of its bank lines at an average of 99.8 per cent over the last five months through August 2019, with the peak utilization high at around 101 per cent during the same period. Acuite expects the working capital management to remain stretched over the medium term on account of high working capital cycle, as the company has to wait for around 45 days from date of delivery of finished goods to receive payments.

• Tender based nature of business

The company deals mainly with government organization, which provides orders on tender basis, indicating that revenues are highly dependent on number and value of tenders floated by the Government. Going forward the company's ability to bid for large orders and qualifying the same remains to be seen.

Key Rating Sensitivity Factors

- Substantial and sustained growth in revenues with sustaining profitability
- Higher than expected working capital requirements leading to deterioration in financial risk profile and liquidity

Material Covenants

None

Liquidity Position

The liquidity position of MTPL is stretched. The net cash accruals of the company have been in the range of Rs. 0.28- 0.33 crore during the period under study. Its accruals are expected in the range of Rs. 0.50-0.88 crores, against which its obligations are about Rs. 0.70-0.22 crore, and it is not planning for any significant debt- funded capex. Its limits are almost fully utilised at 99.8 per cent during the last five months through August 2019. Acuité believes that going forward, the liquidity position of the company will continue to remain stretched in the medium term on account modest cash accruals and high working capital cycle.

Outlook: Stable

Acuité believes that MTPL will maintain its business risk profile over the medium term on account of its established track record and experienced management. The outlook may be revised to 'Positive' in case of substantial and sustained growth in its revenues while sustaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of higher-than-anticipated increase in its working capital requirements most likely as a result of delays in realization of receivables or less than expected accruals leading to deterioration in the financial risk profile and liquidity.

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	16.06	16.61	13.39
EBITDA	Rs. Cr.	1.45	0.93	0.64
PAT	Rs. Cr.	0.23	0.19	0.16
EBITDA Margin	(%)	9.02	5.61	4.75
PAT Margin	(%)	1.44	1.15	1.21
ROCE	(%)	16.95	14.03	14.41
Total Debt/Tangible Net Worth	Times	2.37	1.75	2.29
PBDIT/Interest	Times	1.37	1.61	1.32
Total Debt/PBDIT	Times	4.51	4.24	4.32
Gross Current Assets (Days)	Days	340	268	364

Status of non-cooperation with previous CRA

CRISIL, vide its press release dated Feb 14, 2019, had denoted the rating of Mamta Transformers Private Limited as 'CRISIL B/A4'; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-4.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-Nov-2018	Cash Credit	Long Term	4.00	ACUITE B+ / Stable (Assigned)
	Bank Guarantee	Short Term	3.50	ACUITE A4 (Assigned)
	Proposed Bank Guarantee	Short term	2.50	ACUITE A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B+ / Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A4 (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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