

Press Release

V T Switchgears And Transformers

December 18, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 5.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' (**read as ACUITE B**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 5.00 crore bank facilities of V T Switchgears And Transformers (VTST). The outlook is '**Stable**'.

VTST is a HUF & led by Mr. Rudrappa, who is the proprietor (Karta). VTST is a manufacturer of Distribution and Power Transformers ranging from 15KVA to 2500KVA, up to 1000 KVA Dry type transformers, 11 kV Class and Power Transformers from 5000 KVA to 8000 KVA 11kV, 33kV & 66 kV Class Transformers as per Indian and international standards. Apart from the above, the company also manufactures Electrical Poles such as RCC, PSC & Square cement poles and other line materials & accessories. Moreover, the company is BIS (Bureau of Indian Standards) & BEE (Bureau of Energy Efficiency) compliant which helps in standardisation and to bid for the government tenders. Major customers include State Electricity Supply Companies (BESCOM, CESC, GESCOM, HESCOM, MESCOM and Goa Electricity Board) and Private solar Projects, Private Industries, I.T. Companies, Property Developers and Educational Institutions.

Analytical Approach

Acuité has considered standalone business and financial risk profile of VTST for arriving at the rating

Key Rating Drivers

Strengths

- **Long track record of operations**

VTST was incorporated in 1987 by Mr. Rudrappa. The promoter has more than three decades of experience in the same line of industry. Currently, the operations are managed by his son, Mr. Praveen.

- **Healthy order book position given the scale of operations**

The company supplies transformers to government organisations based out of Karnataka and Goa. The company has an order book position of roughly Rs.30.00 crore executable in a span of two to three years, providing revenue visibility in the near to medium term. The company has already billed revenue of Rs.7.50 crore till date.

Weaknesses

- **Fluctuating revenues and working capital intensive nature of business**

VTST has been showing a trend of fluctuating revenues as income is booked only on completion of the order. The decline in revenue in FY17 is on account of the same. In FY17, VTST had procured orders but some of which were executed only in FY18. The revenue for FY18 was Rs.13.97 crore as against Rs.5.75 crore in FY17. Moreover, the operations of the company are working capital intensive as reflected in high Gross Current Assets (GCA) of 261 days in FY18 as against 638 days in FY17 and 329 days in FY16. Receivable days in FY2018 stood at 120 compared to 180 in FY2017. The receivables are high on account of the nature of the customer profile mainly comprising of government entities. In FY18, inventory stood at 9 days as compared to inventory days of 201 in FY17. The inventory in FY17 mainly comprised of work executable in FY18. The inventory is of a fluctuating nature on account of the nature of the business in which the VTST operates where depending upon the order in hand and pending execution, the inventory shall be piled up. Acuité believes that operations will continue to be working capital intensive over the medium term.

• **Tender driven business**

Out of the total order book, roughly 70 percent is towards government of Karnataka entity (Chamundeshwari Electricity Supply Corporation). Though the company has been able to procure tenders for supply of Transformers & Line Materials on a regular basis on account of its long track record for executing such orders in the past and past experience towards serving this government entity, Acuité believes that the ability of the company to bid for large tenders and qualify for the same will remain a key sensitivity factor. However, the promoter's ability to cater to private companies in addition to government organisations will partially mitigate this risk.

Outlook: Stable

Acuité believes that VTST will remain 'Stable' over the medium term on account of the experienced 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.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	13.97	5.75	9.77
EBITDA	Rs. Cr.	0.69	0.75	0.65
PAT	Rs. Cr.	0.37	0.22	0.25
EBITDA Margin	(%)	4.93	12.99	6.68
PAT Margin	(%)	2.67	3.79	2.60
ROCE	(%)	8.59	7.03	6.68
Total Debt/Tangible Net Worth	Times	1.40	1.35	1.23
PBDIT/Interest	Times	2.23	1.98	2.49
Total Debt/PBDIT	Times	5.70	6.91	6.53
Gross Current Assets (Days)	Days	261	638	329

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.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE B / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4

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About Acuité Ratings & Research:

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