

Press Release

V T Switchgears And Transformers

January 15, 2020



Rating Reaffirmed

| | |
|-------------------------------------|----------------------------|
| 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 reaffirmed the 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. 5.00 crore bank facilities of V T SWITCHGEARS AND TRANSFORMERS (VTST). The outlook is '**Stable**'.

VTST is a HUF & led by Mr. T. 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, Power Transformers from 5000 KVA to 8000 KVA and 11kV, 33kV & 66 KV Class Transformers as per Indian and international standards. Apart from the above, the firm also manufactures Electrical Poles such as RCC, PSC & Square cement poles and other line materials & accessories. 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 the standalone financial and business risk profile of VTST to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

VTST was established in 1987; thus, the firm has an operational track record of over three decades in the aforementioned line of business. The promoter of the firm has an experience of over three decades in the same line of industry. The long track record of operations and experience of the management have helped the firm develop healthy relationships with its customers and suppliers. Acuité believes that VTST will sustain its existing business profile on the back of established track record of operations and experienced management.

- **Healthy order book position**

The firm supplies transformers to government organisations based out of Karnataka and Goa. The firm has modest scale of operations marked by revenues of Rs. 14.50 crore in FY2019 as against Rs. 13.97 crore in FY2018. The firm has an order book position of around Rs.19.00 crore executable in a span of two years, providing revenue visibility in the near to medium term. The firm has already booked revenue of Rs. 8.87 crore till date.

Weaknesses

- **Average Financial Risk Profile**

The financial risk profile of the firm is average marked by low net worth of Rs. 4.07 crore as on 31 March, 2019 as against Rs.3.90 crore as on 31 March, 2018. Gearing (debt-equity) stood at 1.37 times as on 31 March, 2019 as against 1.40 times as on 31 March, 2018. Total debt outstanding of Rs. 5.57 crore as on 31 March, 2019 mainly comprises of short term borrowings of Rs. 3.52 crore, long term debt of Rs. 0.36 crore and unsecured loans of Rs. 1.69 crore. The debt protection metrics of the firm stood moderate marked by interest coverage ratio (ICR) of 1.78 times for FY2019 as against 2.23 times for FY2018. Further, Debt/EBITDA stood high at 6.09 times for FY2019 as against 5.70 times for FY2018. Acuité believes that the financial risk

profile of the firm is expected to remain average over the medium term on account of average debt protection metrics.

• Working capital intensive operations

The firm has working capital intensive operations marked by Gross Current Assets (GCA) days of 284 days for FY2019 as against 261 days for FY2018. The inventory holding period stood at 51 days for FY2019 as against 9 days for FY2018. 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. The receivables days stood at 101 days for FY2019 as against 121 days for FY2018. The receivables are high on account of the nature of the customer profile mainly comprising of government entities. Acuité believes that the firm's ability to maintain its working capital efficiently will remain a key rating sensitivity.

• Tender driven business

Out of the total order book, around 90 percent is towards government of Karnataka entity (Chamundeshwari Electricity Supply Corporation). Though the firm 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 firm 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.

Rating Sensitivities

- Substantial improvement in scale of operation while maintaining profitability margin.
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.

Any Material Covenants

None

Liquidity Position: Stretched

The firm has stretched liquidity marked by low net cash accruals of Rs. 0.40 crore for FY2019. The firm has Rs. 0.08 crore of maturing debt obligations for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs. 0.40 crore to Rs. 0.50 crore during 2020-22 against repayment obligation of around Rs. crore to Rs. crore for the same period. Gross Current Asset (GCA) days stood high at 284 days for FY2019. Further, the average bank limit utilization is almost full. The firm maintains unencumbered cash and bank balances of Rs. 0.03 crore as on 31 March, 2019. The current ratio stood at 1.50 times as on 31 March, 2019. Acuité believes that the liquidity of the firm is likely to remain stretched over the medium term on account of low cash accruals.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 14.50 | 13.97 |
| PAT | Rs. Cr. | 0.23 | 0.37 |
| PAT Margin | (%) | 1.59 | 2.67 |
| Total Debt/Tangible Net Worth | Times | 1.37 | 1.40 |
| PBDIT/Interest | Times | 1.78 | 2.23 |

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.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 |
|-------------|---------------------------------|------------|------------------|-----------------------------|
| 18-Dec-2018 | Cash Credit | Long Term | 3.50 | ACUITE B/ Stable (Assigned) |
| | Letter of Credit | Short Term | 0.50 | ACUITE A4 (Assigned) |
| | Bank Guarantee | Short Term | 1.00 | 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 | 3.50 | ACUITE B/ Stable (Reaffirmed) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 1.50* | ACUITE A4 (Reaffirmed) |

*Includes sublimit of letter of credit to the extent of Rs. 0.50 crore.

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About Acuité Ratings & Research:

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