

Press Release

V T Switchgears and Transformers

March 30, 2021



Rating Upgraded

Total Bank Facilities Rated*	Rs.5.00 Cr
Long Term Rating	ACUITE B+/Stable (Upgraded)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded its long-term rating to '**ACUITE B+**' (**read as ACUITE single B plus**) from '**ACUITE B**' (**read as ACUITE single B**) and reaffirmed the short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.5.00 Cr bank facilities of V T Switchgears and Transformers (VTST). The outlook is '**Stable**'.

About the company

V.T. Switchgears and Transformers (VTST), a Bangalore based company, is a Hindu Undivided Family (HUF) which was established in the year 1987, led by Mr. T. Rudrappa, who is the proprietor (Karta). VTST is a manufacturer of "Distribution and Power Transformers" since two decades ranging from 25KVA to 8 MV Distribution, and 25 KVA to 25000 KVA of "Dry type transformers". The firm also manufactures Electrical Poles like RCC, PSC & Square cement poles and other line materials & accessories.

The rating upgrade on the bank facilities of VTST factors in its improved profitability margins, improved financial risk profile and moderate order book position. The rating also underpinned by established track record of operations and experienced management. These rating strengths are partially offset by its modest scale of operations and working capital intensive operations, susceptibility of revenues and profitability to tender based nature of operations.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of VTST to arrive at the rating

Key Rating Drivers

Strengths

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

VTST was established in 1987; outlining an operational track record of over three decades in the aforementioned line of business. The proprietor 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.

- **Moderate order book position**

The firm has unexecuted order book of Rs.9.00 Cr as on March 15, 2021 from various government bodies. Apart from the above order book, the firm also caters to private companies. This provides adequate revenue visibility for the medium term. Acuité believes that backed by its moderate order book position and historical track of catering to private and government parties gives the adequate revenue visibility over the medium term.

- **Improved profitability margins**

The profitability margins consistently improved Y-o-Y and stood at 4.93 percent in FY2018, 6.21 percent in FY2019 and 10.62 percent in FY2020. The improvement is on account of executing higher number of tender-based orders from government and cost optimization in terms of raw materials and employee expenses.

The PAT margins stood at 2.67 percent in FY2018, 1.59 percent in FY2019 and 5.00 percent in FY2020. The decline in PAT margin in FY2019 was on account of increase in interest cost; in FY2020 PAT margin increased on account of improved operating profit in absolute terms. Acuité believes that profitability margins are susceptible to tender based nature of operations.

Weaknesses

- **Modest scale of operations and susceptibility to tender based nature of operations**

The revenue of the firm has been fluctuating over the review period. The revenue stood at Rs.13.97 Cr in FY2018, Rs.14.50 Cr in FY2019 and Rs.12.91 Cr in FY2020. Revenue decline in FY2020 was on account of impact of covid-19 in the month of March. 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 proprietor's ability to cater to private companies in addition to government organizations will partially mitigate this risk.

- **Moderate financial risk profile**

The financial risk profile of the firm remained moderate with modest networth, moderate gearing and debt protection metrics. The networth stood at Rs.4.32 Cr as on March 31, 2020 as against Rs.4.07 Cr as on March 31, 2019. The gearing stood moderate at 0.99 times and 1.37 times as on March 31, 2020 and 2019 respectively. The gearing improved due to decline in total debt levels. Debt protection metrics interest coverage ratio and debt service coverage ratio stood at 2.76 times and 2.34 times as on March 31, 2020 as against 1.78 times and 1.54 times as on March 31, 2019. The improvement in debt protection metrics is on account of improvement in EBITDA in absolute terms. TOL/TNW stood at 1.79 times and 2.38 times as on March 31, 2020 and 2019 respectively. Acuité believes that the financial risk profile of the firm is expected to remain moderate over the medium term on account of no major debt funded capex.

- **Working capital intensive operations**

The operations of the firm remained working capital intensive with GCA of 275 days as on March 31, 2020 as against 284 days as on March 31, 2019. The high GCA days are on account of high debtor days. The debtor days are higher due to government orders and where the amount is received within 30-60 days. For Q4 of FY2020 the firm generated revenue of Rs.5.13 Cr and the receivables portion as on March 31, 2020 stood at Rs.4.28 Cr. Aside to this, the firm has to provide 5 percent as margin money for government projects and 10 percent is set as retention money and this is released after the defective liability period. The debtor days and inventory days as on March 31, 2020 stood at 121 days and 55 days. The stretched debtor days risk is mitigated by stretched creditor days of 125 days as on March 31, 2020. The working capital limits of the firm remained utilized at 99 percent for the last six months ended February 2021.

Rating Sensitivities

- Lower-than-expected revenue and profitability
- Any Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.

Liquidity Position: Adequate

The firm's liquidity remained adequate marked by adequate net cash accruals generated to service its debt obligations. The NCA stood at Rs.0.89 Cr for FY2020 as against the repayment of Rs.0.09 Cr for the same period. The cash and bank balance stood at Rs.0.03 Cr as on March 31, 2020. The current ratio stood at 1.43 times as on March 31, 2020. The working capital limits remained utilized at 99 percent for the last six months ending February 2021. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term.

Outlook: Stable

Acuité believes that VTST will maintain a 'Stable' outlook over the medium term backed by its experienced management and adequate revenue visibility. The outlook may be revised to 'Positive' in case of a significant improvement in its revenues while maintaining the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected revenue, any deterioration in working capital, and leading to deterioration in financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	12.91	14.50
PAT	Rs. Cr.	0.65	0.23
PAT Margin	(%)	5.00	1.59
Total Debt/Tangible Net Worth	Times	0.99	1.37
PBDIT/Interest	Times	2.76	1.78

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

None

Any Material Covenants:

None

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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
15-Jan-2020	Cash Credit	Long Term	3.50	ACUITE B/Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.50*	ACUITE A4 (Reaffirmed)
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)

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

*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 (Upgraded)
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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