Press Release

Sri Thirumala Fabricators

December 18, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs.18.50 Cr
Long Term Rating	ACUITE BB-/ Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of **'ACUITE BB-' (read as ACUITE double B minus)** and the short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs.18.50 Crore bank facilities of Sri Thirumala Fabricators (STF). The outlook is 'Stable'.

About the group

Tamil Nadu-based Sri Thirumala Fabricators was established as a partnership concern in the year 1997 by Mr. V. Ramesh. The firm was initially engaged in manufacturing of outside shells of transformers. Later in 2010, the firm started manufacturing of power transformers. The firm mainly serves to the TANGEDCO (Tamil Nadu Generation and Distribution Corporation).
Tamil Nadu-based Hindusthan Transsformers was established as a partnership concern in the year 1998 by Mr. V. Ramesh. The firm was initially engaged in servicing of transformers. Later in 2004, the firm forayed into manufacturing of power transformers. The firm mainly serves to the TANGEDCO

The rating assigned to the bank facilities of the group factors in its established track record of operations, experienced management, moderate financial risk profile and moderate working capital cycle. These rating strengths are partially offset by its customer concentration risk and susceptibility of sales and margins due to tender based nature of operations.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Hindusthan Transsformers and Sri Thirumala fabricators to arrive at the rating on the basis of common management and similar line of business. The two entities together are referred to as 'Hindusthan Group'.

Key Rating Drivers

Strengths

- **Long track record of operations, experienced management and moderate order book position**
  The group together was promoted by Mr. V. Ramesh, who has an extensive experience of more than 2 decades in Transformers business. The partners' extensive experience and long track record have helped the group in achieving orders from the government body. The revenues of the group remained fluctuating over the period on account of tender based operations. The revenues of the group stood at Rs.13.39 Cr in FY2018, Rs.32.11 Cr in FY2019 and Rs.25.37 Cr in FY2020 (Provisional). The group has achieved lower revenues of Rs.10.50 Cr from August 2020 to October 2020, as the group remained non-operational during the months of April 2020 to July 2020 on account of Covid-19. The group at present has unexecuted orders of Rs.90.00 Cr as on 31st October 2020.
  Acuité believes that the group will continue to benefit from its experienced management, long track of business operations in winning bids from the government over the medium term.

- **Low project risk associated with on-going capex plan**

The group is undergoing a capex plan; which could aid the group in improving its scale of operations and profitability by adding one more high power transformers into their product line; for which the total project cost is Rs.4.00 Cr. At present, the group is manufacturing 16KVB, 63KVB, 100/11 KVB, 100/22 KVB which costs around Rs.1.50 lakhs, Rs.2.00 lakhs, Rs.2.70 lakhs and Rs.2.9 lakhs, respectively for each transformer. Now with this capex plan, the group can manufacture a high power transformer which costs around Rs.0.23 Cr; thereby increase the margins relatively. The funding for the on-going capex plan will be through covid-19 loan availed from the bank of Rs.1.30 Cr and remaining through internal accruals and partners contribution. The project is expected to complete by April 2021.

- **Moderate financial risk profile**

The financial risk profile of the group has remained moderate with moderate capital structure and debt protection metrics. The networth of the group has been fluctuating during the review period on account of partners' capital drawings and stood at Rs.3.51 Cr as on March 31, 2020 (Provisional) as against Rs.4.49 Cr and 3.89 Cr as on March 31, 2019 and 2018 respectively. The debt – equity ratio stood at 1.55 times, 1.36 times and 1.71 times as on March 31, 2020 (Provisional), 2019 and 2018 respectively. The fluctuation is mainly on account of networth levels, although the total debt levels coming down year on year. Debt protection metrics Interest coverage ratio (ICR) and Debt service coverage ratio (DSCR) has been improving Y-o-Y. ICR has improved from 1.18 times in FY2019 to 1.27 times in FY2019 and 1.29 times in FY2020 (Provisional) on account of increase in EBITDA in absolute terms. DSCR has also been improving and stood at 1.13 times, 1.20, 1,22 as on March 31, 2018 , 2019 and 2020 (Provisional) respectively. TOL/TNW improving and stood at 4.39 times, 3.67 times, 2.14 times as on March 31, 2018, 2019 and 2020 (Provisional) respectively. Acuité believes that the financial risk profile of the firm is expected to be moderately leveraged owing to debt-funded capex plan over the medium term.

Weaknesses

- **Moderate working capital management**

The groups' working capital management has been improving over the period and remained moderate. The GCA days has improved from 507 days as on March 31, 2018 to 211 days as on March 31, 2019 and 118 days as on March 31, 2020 (Provisional). The improvement in GCA days is mainly on account of improvement in receivables. Usually, it takes around 3 to 4 months to realize the payments from TANGEDCO. The debtors days improved from 212 days to 88 days and 17 days as on March 31, 2018; 2019 and 2020 (Provisional) respectively. The inventory days stood at Rs.269 days as on March 31, 2018; 97 days as on March 31, 2019 and 79 days as on March 31, 2020 (Provisional). The creditor days stood at 331 days as on March 31, 2018; 131 days as on March 31, 2019 and 29 days as on March 31, 2020 (Provisional) The groups' rely on creditors has also been decreased on account of timely collection of receivables from the government. The bank lines of the group were utilized at around 90 percent over the last six months ended in October 2020. Acuité believes that group's working capital cycle will remain moderate over the medium term.

- **Susceptibility of sales and profitability on account of tender based nature of operations and customer concentration risk**

Group's sales and profitability are susceptible to the risk arising from tender-based nature of operations. Around 99 percent of the group's sales are mainly to TANGEDCO, where the orders are being received on tender basis, which indicates significant customer concentration risk. This is also evident from the previous years' revenue fluctuation, where the revenues of the group stood at Rs.13.39 Cr in FY2018, Rs.32.11 Cr in FY2019 and Rs.25.37 Cr in FY2020 (Provisional). The operating margins stood at 8.58 percent in FY2018, 5.13 percent in FY2019 and 6.76 percent in FY2020 (Provisional). The group has present order book position of Rs.90 Cr and Rs.14 Cr of orders in pipeline which provides adequate visibility of revenue over the medium term.

Rating Sensitivities

- Lower-than-expected revenue and profitability
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity.

Liquidity Position: Adequate
The liquidity position of the group remained adequate during the review period. The cash accruals of the group remained modest and stood in the range of Rs.0.15-0.30 Cr through FY2018-2020 against nil repayment debt obligations. The net cash accruals are expected to be around Rs.0.60-1.75 Cr through FY21-FY23 against the repayment obligation of Rs.0.35-0.75 Cr for the said period. The cash and bank balance of the group stood at Rs.0.02 Cr as on March 31, 2020 (Prov.). The current ratio of the group stood at 1.76 times as on March 31, 2020 (prov.). The bank lines of the group remained utilized at around 90 percent over the last six months ended October 2020. Acuité believes that the liquidity profile continues to be adequate supported by accruals and moderate working capital management.

Outlook: Stable
Acuité believes that the group 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 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	25.37	32.11
PAT	Rs. Cr.	0.24	0.26
PAT Margin	(%)	0.93	0.81
Total Debt/Tangible Net Worth	Times	1.55	1.36
PBDIT/Interest	Times	1.29	1.27

Status of non-cooperation with previous CRA (if applicable)
None
Any other information
None
Any Material Covenants
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-60.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.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	1.50	ACUITE BB-/ Stable (Assigned)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	4.70	ACUITE A4+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.30	ACUITE BB-/ Stable (Assigned)

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