



Press Release
SRI THIRUMALA FABRICATORS
June 08, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	3.86	ACUITE BB- Stable Assigned	-
Bank Loan Ratings	36.14	-	ACUITE A4+ Assigned
Total Outstanding Quantum (Rs. Cr)	40.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.40.00 Crore bank facilities of Sri Thirumala fabricators(STF). The outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned takes into account extensive experience of the management and established track record of more than 25 years in manufacturing of transformers for TANGEDCO. Further, the rating also factors in continued growth in scale of operations, revenue of the group stood at Rs 63.70 Cr in FY 2022 as against Rs 40.17 Cr in FY 2021 and Rs 25.37 Cr in FY 2020. However, revenue are moderated in FY 2023 (Prov) and stood at Rs 59.01 Cr. However, rating is constrained by high customer and supplier concentration risk, moderate financial risk profile & intensive working capital operations of the group along with vulnerability of profitability owing to volatility in raw material prices.

About Company

Sri Thirumala fabricators was established as a partnership concern in the year 1997 by Mr. V. Ramesh. The firm initially engaged in servicing of transformers. Later in 2004, the firm engaged in manufacturing of power transformers. STF is a manufacturer of transformers utilized for electrical distribution. STF manufactures and sells transformers to Tamil Nadu Generation and Distribution Corporation (TANGEDCO), a subsidiary of Tamilnadu Electricity Board (TNEB). Transformers are made as per the specifications of TANGEDCO. Orders are acquired through participation in the tender process announced by TANGEDCO for yearly orders.

About the Group

Hindusthan group(HG) consists of two firms namely Hindusthan Trassformers(HT) and Shri Thirumala Fabricators(STF). HT was incorporated in 1998 and STF was incorporated in 1997, both the firms are engaged in manufacturing and selling of transformers to Tamil Nadu Generation and Distribution Corporation (TANGEDCO). Transformers are made as per the specifications of TANGEDCO. Orders are acquired through participation in the tender process announced by TANGEDCO for yearly orders.

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated the business and financial risk profiles of Hindusthan Transformers and Sri Thirumala fabricators to arrive at the rating. The consolidation is in the view of common management, operational linkages between the entities and a similar line of business. The two entities together are referred to as 'Hindusthan Group'.

Key Rating Drivers

Strengths

Long track record of operations and experienced management

The group has an experience of more than 25 years in manufacturing of transformers. The group is promoted by partners Mr. V.Ramesh, Mrs.E. Mahalaxmi and Ms.N.Fatima Sumaiya, who possess experience of more than two decades in manufacturing and sale of transformers. The extensive experience of promoters has helped the group in establishing long term relationship with TANGEDCO and suppliers for repeat orders. HG manufactures 16KVB, 63KVB, 100/11 KVB, 100/22 KVB transformers on tender based orders from TANGEDCO with billing cycle ranging between 120 days to 160 days. The nature of billing is order based and thus it has low business risk in terms of billing cycle. The revenue of the group has increased in FY 2022 and stood at Rs 63.70 Cr as against Rs 40.17 Cr and Rs 25.37 Cr in FY 2021 and FY 2020 respectively. However, the revenue is moderated in FY 2023 (Prov) and stood at Rs 59.01 Cr. The operating margins of the group are range bound and are in the range of 7-8% through last 4 years.

Acuité believes that the group will continue to benefit from its experienced management and established relationships with both customer as well as suppliers in the medium term.

Weaknesses

Working Capital Intensive operations

Working capital operations of the group are intensive marked by increasing high GCA days. The GCA days of the group stood at 268 days in FY 2022 as against 186 days in FY 2021 and 117 days in FY 2020. The higher GCA days are majorly constitutes of high debtor days, which increased to and stood at 151 days in FY 2022 as against 87 days in FY 2021 and 29 days in FY 2020. The general credit period allowed is of 75-120 days to its customers. The group maintains an inventory of about 85 to 90 days. Its creditor's days stood at 75 to 120 days during last 3 years through FY2022. However, working capital limit utilization remained moderate at about 59 percent over the past 12 months ended March 2023 for Hindustan transformers and 50 percent for Sri Tirumala fabricators.

Acuite' believes that working capital operations of the group may continue to remain intensive considering the higher credit period allowed and high inventory level requirements.

Moderate financial risk profile

HG's financial risk profile is moderate marked by moderate capital structure, moderate gearing and coverage indicators. Group's net worth stood at Rs.11.35 Cr as on March 31, 2022 as against Rs.6.45 Cr as on 31 March, 2021. The increase in net worth is majorly due to accretion of profits to the reserves. The group follows a moderately aggressive financial policy reflected through its peak gearing of 2.54 times as on 31 March, 2022. The debt-equity ratio of the company remains high at 2.54 as on 31 March, 2022 as against 1.08 as on 31 March, 2021. The Total outside liabilities to Tangible net worth (TOL/TNW) stood at 3.58 times for FY2022 as against 2.75 times in FY2021. Company's debt protection metrics remains moderate with an Interest coverage ratio stood at 1.40 times as on 31 March, 2022 and 1.27 times as on 31 March, 2021, debt service coverage ratio(DSCR) stood at 1.34 times for FY2022 as against 1.20 times for FY2021. The net cash accrual(NCA) to total debt(TD) is 0.04 times as on 31 March, 2022 and 0.08 times as on 31 March, 2021.

Acuité believes that the financial risk profile of the group may continue to remain moderate in

the absence of any major debt funded capex in near to medium term.

High customer and supplier concentration risk

Group is a manufacturer of transformers utilized for electrical distribution. HT manufactures and sells transformers to Tamil Nadu Generation and Distribution Corporation (TANGEDCO). Transformers are made as per the specifications of TANGEDCO. Orders are acquired through participation in the tender process announced by TANGEDCO for yearly orders. TANGEDCO alone contributes 100 percent of total revenue depicting higher customer concentration risk. Further, top ten suppliers contribute to 100 percent of total purchases during past 3 years depicting high supplier concentration risk.

Vulnerability of profitability owing to volatility in commodity prices

The profitability margins of the group are susceptible to volatility in commodity prices. Significant changes in commodity prices will impact the margins of the group. Acuité believes that profitability of the group will remain susceptible to volatility in commodity prices in the near to medium term.

Rating Sensitivities

- Significant improvement in its scale and margins while maintaining an adequate liquidity position
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity

Material Covenants

None

Liquidity Position: Adequate

HG's liquidity is adequate marked by comfortable cash accruals to its debt obligation. It reported cash accrual of Rs. 1.14 Cr in FY22. It accruals are expected to be in range of 1.47 Cr to 1.60 Cr in FY2023-25 against repayment obligation of Rs. 1.06 Cr to 1.48 Cr during the same period. The current ratio stands at 1.34 times and cash and bank balance stood at 2.98 Cr as on March 31st 2022. However, Group's GCA days are on higher side and stood at 268 days in FY 2022. Average bank utilization of HT stood at 59 percent for 12 months ending March 2023 and for STF stood at 50 percent over last 12 months ending March 2023.

Outlook: Stable

Acuité believes that HG will maintain a 'Stable' outlook and continue to benefit over the medium term owing to its promoter's extensive industry experience. The outlook may be revised to 'Positive' in case of sustained improvement in the scale of operations and profitability while maintaining comfortable financial risk profile and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in revenue and profitability or if the financial risk profile weakens, because of stretch in the working capital cycle or higher than expected debt-funded capital expenditure.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	63.70	40.17
PAT	Rs. Cr.	1.04	0.47
PAT Margin	(%)	1.63	1.16
Total Debt/Tangible Net Worth	Times	2.54	1.08
PBDIT/Interest	Times	1.40	1.27

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Feb 2022	Bills Discounting	Short Term	4.70	ACUITE A4+ (Withdrawn)
	Bank Guarantee	Short Term	2.00	ACUITE A4+ (Withdrawn)
	Cash Credit	Long Term	1.50	ACUITE BB- (Withdrawn)
	Proposed Bank Facility	Long Term	10.30	ACUITE BB- (Withdrawn)
18 Dec 2020	Proposed Bank Facility	Long Term	10.30	ACUITE BB- Stable (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A4+ (Assigned)
	Bills Discounting	Short Term	4.70	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	1.50	ACUITE BB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	6.50	ACUITE A4+ Assigned
Canara Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	11.00	ACUITE A4+ Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	18.49	ACUITE A4+ Assigned
Canara Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	1.50	ACUITE BB- Stable Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.20	ACUITE BB- Stable Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.16	ACUITE BB- Stable Assigned
Canara Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	0.15	ACUITE A4+ Assigned

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt Support)

1. Hindusthan Transformers
2. Sri Thirumala Fabricators

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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