March 25, 2022

# Vilas Transcore Limited: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Cash Credit | 5.00 | 3.00 | [ICRA]BBB+ (Stable); reaffirmed |
| Term Loan | 1.45 | - | - |
| Letter of Credit | 67.00 | 41.98 | [ICRA]A2; reaffirmed |
| Derivative Limits | 1.82 | | - |
| **Total** | **75.27** | **44.98** | |

**Instrument details are provided in Annexure-1*

# Rationale

The reaffirmation of the ratings factors in Vilas Transcore Limited's (VTL) sharp improvement in financial performance in the current fiscal, which is expected to continue in the near term. In 9M FY2022, on a provisional basis, VTL earned revenues of ~Rs. 163.5 crore with an operating margin of ~19.5% on the back of high realisations, large inventory gains and high margins due to a shortage of cold-rolled grain-oriented (CRGO) steel sheets in the market. However, historically the operating margin remained range bound at ~ 5-8%, except in FY2018 when the same stood at 11.6%. On a long-term basis, the margin is likely to sustain at similar levels. The ratings also consider VTL's healthy financial risk profile, characterised by its comfortable capital structure and healthy debt coverage indicators. The ratings also reflect the promoter's extensive experience and established track record in the transformer industry, along with the company's reputed client base.

The ratings are, however, constrained by the company's exposure to intense competition in the highly-fragmented transformer industry, due to the presence of various organised and unorganised players. It also considers the vulnerability of the company's profitability to the fluctuations in raw material (CRGO) prices and its availability. The ratings also factor in the high working capital intensity owing to the elongated receivables cycle and the high inventory holdings required to ensure continuity of operations due to the long lead time in procurement of raw materials.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the company will continue to benefit from the extensive experience of its promoter in the transformer industry and its established relationship with a reputed customer base.

# Key rating drivers and their description

## Credit strengths

**Sharp improvement in financial performance in FY2022** – VTL has witnessed a sharp improvement in its financial performance in FY2022 on the back of high realisations, inventory gains and high margins due to a shortage of CRGO sheets in the market. In 9M FY2022, sales realisation for CRGO laminations, coils and cores increased by 56%, 73% and 41%, respectively, compared to FY2021. Besides, large inventory gains and higher margins led to an OPM of ~19.5% in 9M FY2022. These high realisations are expected to sustain, at least in the near term. However, raw material prices have witnessed a steep rise, thus the OPM is expected to moderate to historical levels, going forward.

**Extensive experience of promoters in transformer industry** – VTL was established in 1995 by Mr. Nilesh Patel, who has an experience of two decades in the transformer industry. He is also the promoter of the Group entity, Jayesh Electricals Limited (JEL), which manufactures transformers.

**Reputed customer profile** – The company mainly caters to domestic transformer manufacturers and has minimal exports. VTL's customer profile comprises reputed and established transformer manufacturers, with which it has built strong relationships over the years, as evident from its track record of repeat orders.

**Healthy financial risk profile -** The company's net worth remained healthy, at Rs. 82.3 crore as on March 31, 2021, on the back of healthy accretion to reserves over the years. On the other hand, the total debt was low at Rs. 7.58 crore as on March 31, 2021. The debt further reduced to ~Rs. 4.9 crore in December 31, 2021, due to lower working capital utilisation and repayment of the promoter loans. The healthy net worth and the modest debt level continued to reflect a comfortable capital structure, as evident from the gearing of 0.09 times and TOL/TNW of 0.52 times as on March 31, 2021. The debt coverage indicators also improved in FY2021, with an interest coverage of 5.52 times (3.55 times in FY2020) and DSCR of 4.12 times in FY2021 (1.94 times in FY2020). The interest cover further improved to ~70 times in 9M FY2022 due to a sharp increase in VTL's profits. The capital structure and coverage indicators are estimated to remain comfortable in FY2022 and beyond with low dependence on external debt, healthy accretion to reserves and healthy profits.

## Credit challenges

**Intense competition –** The transformer lamination, cores and coils manufacturing industry is highly fragmented because of the presence of various organised and unorganised players, leading to intense competition. This has also resulted in steady revenues between ~Rs. 130 crore and Rs. 200 crore over the last five years, and moderate scale of operations.

**High working capital intensity –** VTL's key raw material requirement is CRGO sheet, which was primarily met through direct imports till FY2020. In FY2021, the company diversified its supplier base to include more domestic players. However, the lead time for procurement of raw material remains high as the same is in short supply in the market. The long lead time results in high inventory holdings. In addition to this, elongated receivables led to an increased NWC/OI level of ~30-32% in FY2021 and the current year. ICRA expects the working capital intensity to continue to be high at ~30% during FY2022-FY2023, on the back of higher inventory holding period.

**Vulnerability of profitability to fluctuations in raw material prices –** VTL's margins are primarily affected by the fluctuations in CRGO steel prices, which is the company's major raw material. ICRA notes that the prices of CRGO sheets have witnessed a steep rise in the past few months. As the major portion is backed by LC, it resulted in high utilisation of the non-fund based limits. Further, the company is exposed to the fluctuations in foreign exchange (forex) rates as a part of the raw material requirement is met through imports. However, the risk is partly mitigated through derivative contracts.

# Liquidity position: Adequate

VTL's liquidity position is adequate, as evident from its sufficient accruals against the debt repayment obligations. ICRA notes that the company has no external debt at present, and dependence on external debt is expected to remain low, going forward. The promoter also infuses unsecured loans in the business as and when required to support the incremental working capital requirements.

## Rating sensitivities

**Positive factors –** ICRA may upgrade the ratings if VTL expands its scale of operations, while maintaining healthy profitability margins and liquidity position.

**Negative factors –** ICRA may downgrade VTL's ratings in case of any substantial decline in its scale of operations or moderation in margins on a sustained basis. Any large debt-funded capex or a stretch in the company's working capital cycle, leading to a deterioration in key credit metrics and liquidity position could also put pressure on the ratings.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | [Corporate Credit Rating Methodology](#) |
| **Parent/Group Support** | Not Applicable |
| **Consolidation/Standalone** | The assigned ratings are based on the issuer's standalone financial statements. |

## About the company

VTL started its operations in 1995 as a proprietorship firm by Mr. Nilesh Patel, a Vadodara-based first-generation entrepreneur. It was converted into a closely-held public limited company in 2007. The company manufactures transformer laminations, coils and cores made of cold-rolled grain-oriented (CRGO) steel. VTL's manufacturing facility is at Vadodara (Gujarat), and has a capacity of ~17,200 metric tonnes per annum (MTPA). Mr. Nilesh Patel is also the promoter of Jayesh Electricals Limited (JEL), which manufactures different types of transformers.

In FY2021, VTL reported a net profit of Rs. 5.21 crore on an OI of Rs. 132.84 crore against a net profit of Rs. 3.60 crore on an OI of Rs. 162.34 crore in the previous year. In 9M FY2022, on a provisional basis, VTL reported a net profit of ~Rs. 30.99 crore on an OI of Rs. 163.5 crore.

## Key financial indicators (audited)

| | FY2020 | FY2021 | 9M FY2022 (Provisional) |
|---|---|---|---|
| Operating Income (Rs. crore) | 162.34 | 132.84 | 163.46 |
| PAT (Rs. crore) | 3.60 | 5.21 | 30.99 |
| OPBDIT/OI (%) | 5.3% | 6.8% | 19.5% |
| PAT/OI (%) | 2.2% | 3.9% | 19.0% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.34 | 0.52 | |
| Total Debt/OPBDIT (times) | 0.10 | 0.09 | 0.11 |
| Interest Coverage (times) | 3.55 | 5.52 | 69.86 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2022) | | | | Date & Rating in | Chronology of Rating History for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of Dec 31, 2021 (Rs. crore) | | FY2022 | FY2021 | FY2020 | FY2019 | |
| | | | | | Mar 25, 2022 | April 08, 2021 | - | Mar 05, 2020 | Feb 25, 2019 | May 3, 2018 |
| 1 | Cash Credit | Long-Term | 3.0 | - | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) | - | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) | [ICRA]BBB (Positive) |
| 2 | Term Loan | Long-Term | - | - | | [ICRA]BBB+ (Stable) | - | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) | [ICRA]BBB (Positive) |
| 3 | Letter of Credit | Short-Term | 41.98 | - | [ICRA]A2 | [ICRA]A2 | - | [ICRA]A2 | [ICRA]A2 | [ICRA]A3+ |
| 4 | Derivative Limits | Short-Term | | - | | [ICRA]A2 | - | [ICRA]A2 | [ICRA]A2 | [ICRA]A3+ |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Cash Credit | Simple |
| Letter of Credit | Very Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (RS Crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Cash Credit | - | - | - | 3.00 | [ICRA]BBB+(Stable) |
| NA | Letter of Credit | - | - | - | 41.98 | [ICRA]A2 |

***Source:*** *Company*

*Please click here to view details of lender-wise facilities rated by ICRA*

### Annexure-2: List of entities considered for consolidated analysis

NA

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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### Branches




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