

Tesla Transformers (India) Limited

November 17, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	3.45	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Long Term Bank Facilities	4.30 (Enhanced from 2.80)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	65.00 (Enhanced from 50.00)	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed
Short Term Bank Facilities	25.00 (Enhanced from 15.00)	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	97.75 (₹ Ninety-Seven Crore and Seventy-Five Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Tesla Transformers (India) Limited (TTIL) continue to derive strength from experienced promoters and its established track record of operations in the transformer industry, reputed and diversified clientele and its moderate capital structure.

The ratings, however, continue to be constrained on account of its moderate scale of operations and operating profitability which is susceptible to volatile raw material prices and foreign exchange rates, moderate debt coverage indicators, stretched liquidity, company's presence in a competitive transformer industry saddled with execution challenges as well as the 'with-recourse' nature of debt in Tesla Transformers Limited (TTL) which has a weaker credit profile.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Volume driven growth in TOI beyond Rs.300 crore along with sustained PBILDT margin of more than 8%
- Overall gearing below unity with reduced reliance on external borrowings to fund working capital requirements; resulting in better liquidity
- Improvement in gross operating cycle (inventory + receivables) below 150 days

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in TOI to lower than Rs.100 crore or decline in PBILDT margin below 4% on a sustained basis
- Any major elongation in gross operating cycle and increase in external borrowings to fund these requirements
- Any large sized debt-funded capex resulting in deterioration in debt coverage indicators in a short time frame
- Any major delinquency in receivables or write-off of inventory

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters with established operations in transformer industry: The promoters of TTIL have a long-standing experience of over four decades in the transformer industry along with an established track record in the manufacturing of a wide range of power and distribution transformers through their association with Tesla Transformers Ltd. (TTL) from which it has been demerged. At present, the company is managed by Mr. Jaideep Jain, an electrical engineer and son of Late V. K. Jain (promoter founder of the Tesla group) and family members. Mr. Jaideep Jain possesses experience of around three decades in transformer industry.

Reputed and diversified clientele: Over a span of more than four decades in the industry, TTIL has developed strong associations and relations with its clients. Owing to the same, TTIL is able to secure repeat orders from its customers. TTIL's clientele consists of reputed public sector power transmission and distribution (T&D) entities, along with reputed private players engaged in engineering, procurement, and construction (EPC) business in the power T&D industry.

Further, TTIL exports transformers to various countries including Australia, South Africa, Afghanistan, Libya, Bangladesh, and Nepal. However, exports constituted a small portion of TTIL's gross sales (~25% in FY22).

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

TTIL's clientele remained diversified as sales from its top 10 customers stood at 44% of total sales in FY22 (41% in FY21), indicating moderate customer concentration. Further, large part of its sales to private players is backed by letter of credit, mitigating the counter party risk to some extent.

Moderate capital structure albeit moderate debt coverage indicators: The capital structure of TTIL continued to remain moderate marked by overall gearing of 0.86x as on March 2022 (P.Y.: 0.77x). Marginal moderation in the same was mainly on the back of higher outstanding working capital borrowings. Overall gearing remained at 0.74 times as on September 30, 2022 (Provisional). Furthermore, TTIL has also provided corporate guarantee for the bank guarantees (BGs) extended by TTL to its customers for its previously executed projects. Considering this, adjusted overall gearing improved and remained moderate at 1.10x as on March 31, 2022 (P.Y.: 1.49x). Adjusted overall gearing remained at 1.12x as on September 30, 2022 (Provisional). This constrains the company's rating, given its obligation to service the debt of TTL which has a relatively weaker credit profile, in case of any BG invocation.

The debt coverage indicators of the company continued to remain moderate during FY22 marked by Total Debt/GCA of 12.35x (P.Y.: 12.38x) and PBILDT interest coverage of 1.46x (P.Y.: 1.30x). In H1FY23 (Provisional) also, debt coverage indicators remained moderate with interest coverage of 2.82x and total debt to GCA of 13.97x for the half year ended on September 30, 2022 (Provisional).

Key rating weaknesses

Moderate scale of operations and profitability: During FY22, Total Operating Income (TOI) of TTIL increased by ~13% y-o-y and continued to remain moderate at Rs.171.28 crore (P.Y.: Rs.150.95 crore). The growth in scale of operations was due to increase in sales of power transformers as well as project income from one of its orders.

TTIL's operating profitability also continued to remain moderate with PBILDT margin of 4.46% in FY22 (P.Y.: 5.18%). Despite volatility in raw material prices (mainly copper and steel derivatives), moderation was marginal due to price escalation clause present in majority of the orders. Further, TTIL has a strict policy of accepting orders from private players (which formed ~60% of its TOI) backed by LCs only, which limits the scope of orders available for execution, thereby impacting its profitability. TTIL reported TOI of Rs.93.62 crore with PBILDT margin and PAT margin of 4.49% and 1.89% respectively in H1FY23 (Provisional).

Exposure to volatile raw material prices & forex exchange rates: Raw materials such as copper, cold rolled grain oriented (CRGO) steel, transformer oil and aluminium form majority (50-60%) of TTIL's total raw material costs. Prices of these raw materials are highly volatile in nature, guided by the international demand-supply scenario due to their global linkages. This exposes TTIL to any major adverse raw material price fluctuation, though presence of price escalation clauses in the company's orders insulates it against this risk to an extent.

Further, CRGO is largely imported by domestic transformer players; hence, it also remains exposed to adverse movement in foreign exchange rates. However, some part of TTIL's sales is by way of exports, which provides partial hedge to its foreign currency exposure.

Presence in a competitive transformer industry saddled with execution challenges: The domestic transformer manufacturing industry is highly fragmented marked by presence of many players, especially for lower KV class transformers and thus remains competitive. Players also face competition by way of imports from countries such as China. This coupled with tender based procurement by majority of the customers results in pressure on pricing and margins for the industry players. Furthermore, players in the transformer industry also face multiple execution challenges such as lack of clearances for projects and weak financial health of distribution companies, which restricts the order inflow and impacts liquidity.

Liquidity: Stretched

TTIL's liquidity profile continued to remain stretched marked by an elongated operating cycle, high utilization of its fund-based limits at ~90% for the trailing 12 months ended June 2022 and negligible free cash and bank balance.

TTIL's operations are working capital intensive in nature, which is inherent to the transformer industry, owing to its sizeable inventory holding requirement for smooth execution of orders which also factors in the time taken for inspection and certification by customers, substantial credit period extended mainly to state utilities and a reasonably long order execution cycle due to diverse nature of transformers. Owing to same, its gross operating cycle remained elongated at 203 days in FY22.

TTIL also needs to provide bank guarantee for its supplies to distribution companies, owing to which, average utilization of non-fund based for trailing twelve months ended June 2022 stood moderate at 78%. TTIL's funds are also blocked as bank guarantee margins (including guarantees issued by TTL for which TTIL has provided a corporate guarantee post completion of de-merger formalities). Further, TTIL availed ad-hoc limit for 6 months from October 2021 to March 2022 to support operations.

Apart from this, during FY22, TTIL availed working capital loan of Rs.1.80 crore under Covid scheme (in addition to Rs.5.60 crore availed in FY21), along with infusion of Rs.0.80 crore by promoters in the form of unsecured loans. This provided cushion to its liquidity to certain extent.

TTIL has a debt repayment obligation of around Rs.2.82 crore in FY23, which is expected to be met out of envisaged cash accrual generation of more than Rs.4 crore.

Analytical approach: Standalone along with support extended by way of corporate guarantee for the bank facilities (bank guarantees) availed by TTL.

TTIL was incorporated in January 2017 as a result of demerger of the power and distribution transformer divisions of TTL into two separate entities, viz., TTIL and Tesla Transformers Global Pvt. Ltd. (TTGPL). Both TTIL and TTGPL have extended unconditional and irrevocable joint and several corporate guarantees for the bank guarantee limit availed by TTL (performance bank guarantee limit for the BGs extended prior to demerger). Hence, standalone financials of TTIL along with its support by way of corporate guarantee extended to TTL has been considered for the purpose of analysis.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the company

TTIL (CIN: U31900MP2017PLC042200) was incorporated in January 2017 as a result of demerger of TTL into two separate entities, viz., TTIL and TTGPL. Prior to demerger, TTL, since 1972, was engaged in the manufacturing of power and distribution transformers up to 63 mega volt ampere (MVA); 132 kilo volt (KV) class along with the execution of turnkey projects up to 220 kV class. TTL was jointly promoted by the Jain and Siddiqui families based at Bhopal, Madhya Pradesh.

The de-merger was done largely to separate the business of TTL into two separate entities, each individually managed by one of the promoter families. Post demerger, effective from April 1, 2018, TTIL is managed by Jain family and undertakes manufacturing of power and distribution transformers.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (Prov.)
Total operating income	150.95	171.28	93.62
PBILDT	7.81	7.64	4.20
PAT	1.69	2.48	1.77
Overall gearing (times)	0.77	0.86	0.74
Interest coverage (times)	1.30	1.46	2.82

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	30/09/2026	3.45	CARE BBB-; Stable
Fund-based - LT-Working Capital Demand loan	-	-	-	-	4.30	CARE BBB-; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	-	25.00	CARE BBB-; Stable / CARE A3
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	40.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Letter of credit	-	-	-	-	25.00	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	25.00	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (04-Aug-22)	1)CARE BBB-; Stable / CARE A3 (05-Jul-21)	1)CARE BBB-; Stable / CARE A3 (04-Jan-21)	1)CARE BBB-; Negative / CARE A3+ (27-Feb-20) 2)CARE BBB; Stable / CARE A3+ (03-Apr-19)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	40.00	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (04-Aug-22)	1)CARE BBB-; Stable / CARE A3 (05-Jul-21)	1)CARE BBB-; Stable / CARE A3 (04-Jan-21)	1)CARE BBB-; Negative / CARE A3+ (27-Feb-20) 2)CARE BBB; Stable / CARE A3+ (03-Apr-19)
3	Non-fund-based - ST-Letter of credit	ST	25.00	CARE A3	1)CARE A3 (04-Aug-22)	1)CARE A3 (05-Jul-21)	1)CARE A3 (04-Jan-21)	1)CARE A3+ (27-Feb-20) 2)CARE A3+ (03-Apr-19)
4	Fund-based - LT-Working Capital Demand loan	LT	4.30	CARE BBB-; Stable	1)CARE BBB-; Stable (04-Aug-22)	1)CARE BBB-; Stable (05-Jul-21)	1)CARE BBB-; Stable (04-Jan-21)	-
5	Fund-based - LT-Term Loan	LT	3.45	CARE BBB-; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: None**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Demand loan	Simple
3	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
4	Non-fund-based - LT/ ST-Bank Guarantee	Simple
5	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Bank lender details for this companyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings Limited has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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