



Press Release

Ornet Transformers Private Limited

March 04, 2024

Ratings

Instrument / Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	4.41	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	43.70	IVR A3 (IVR A Three)	Assigned	Simple
Proposed Long Term / Short term Bank Facilities	11.89	IVR BBB-/Stable / IVR A3 (IVR Triple B Minus with Stable Outlook / IVR A Three)	Assigned	Simple
Total	60.00 (Rupees Sixty crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Ornet Transformers Private Limited (OTPL) derive strength from experienced promoters, reputable client base and healthy order book position. The rating strengths are, however, constrained by moderate scale of operations and profitability, moderate capital structure and debt protection metrics, working capital intensive operations, volatility in raw material prices and stiff industry competition.

Key Rating Sensitivities:

Upward Factors

- Significant increase in total operating income along with profitability on a sustained basis improving cash accruals and liquidity of the company.
- Improvement in TOL/TNW and sustenance of overall gearing below unity.
- Improvement in working capital cycle.

Downward Factors

- Decline in revenue and/or profitability leading to deterioration in debt protection metrics.
- Elongation of working capital cycle impacting cash flows and liquidity of the company.
- Any large-sized debt-funded capex resulting in deterioration in overall gearing and deterioration in debt protection metrics.



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List of Key Rating Drivers with Detailed Description

A. Key Rating Strengths

Experienced promoters

OTPL's promoters have long-standing experience of over two decades in the transformer industry and have established a track record in the manufacturing of a wide range of distribution and solar transformers.

Reputable client base and healthy order book position.

OTPL has developed long standing relations with its clients thus securing repeat orders from its customers. Its clientele consists of private sector entities like Adani Green Energy Ltd., Mundra Solar PV Ltd., Torrent Power Ltd., Tata Power Solar Systems Ltd., Siemens Ltd., etc. The company has an order book of Rs. 455.51 crore as on December 31, 2023, to be executed in next 6 months. This is 4.89 times of the total operating income of FY23 i.e. Rs. 93.09 crore, providing adequate revenue visibility over the medium term. Further, sales from its top 5 customers stood at 74.35% of total sales in FY23 (72.98% in FY22), indicating moderate customer concentration. Furthermore, 100% orders are from private companies where payments are backed by advance and letter of credit mitigating the counter party risk to some extent.

B. Key Rating Weaknesses

Moderate scale of operations and profitability

Scale of operations remains moderate, with turnover of around Rs 93.09 crore in FY23 despite growth of 64.41% from Rs. 56.62 crore in FY22. Company has booked revenue of Rs 141.00 crore in 9MFY24 (Unaudited). OTPL's operating profitability also continued to remain moderate with EBIDTA margin at 5.79% in FY23 against 6.24% in FY22 majorly due to competitive nature of industry and high operating expenses. The PAT margin was at 1.48% in FY23 against 1.87% in FY22 due to an increase in interest expenses.

Moderate capital structure and debt protection metrics

OTPL's financial risk profile is marked by a modest networth of Rs. 19.06 crore as on March 31, 2023. Total debt has increased from Rs. 6.88 crore in FY22 to Rs. 21.86 crore in FY23 and primarily comprises of term loan of Rs. 1.50 crore, unsecured channel financing loans of Rs. 5.46 crore and bank borrowings of Rs. 14.90 crore. Overall gearing accordingly moderated to 1.15 times as on March 31, 2023, from 0.35 times as on March 31, 2022. TOL/TNW moderated to 2.30x times as on March 31, 2023, as against 1.14x as on March 31,



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2022. The company is in the process of building a new manufacturing facility with a capacity of 15 MVA expected to be completed by July 2024. The project cost is Rs. 50.00 crore which is to be funded by term loan of Rs. 5.00 crore, promoter contribution of Rs. 10.00 crore and remaining Rs. 35.00 crore through internal accruals.

Debt protection metrics have remained adequate with interest coverage moderating to 1.58 times in FY23 as against 2.12 times in FY22. Total debt to GCA continues to be high at 10.63 times in FY23. Financial risk profile is expected to remain moderate over the medium term.

Working capital intensive operations:

Operations are working capital intensive, with gross current assets of 218 days as on March 31, 2023, against 223 days as on March 31, 2022, driven, in turn, by debtors and inventory of 76 and 33 days, respectively in FY23. The company provides credit period of 60-90 days to most of its customers. Most of the inventory is order-backed. Working capital cycle is partially supported by creditors of 67 days. The company's average fund-based month end working capital utilisation was ~65% for the last 12 months ended January 2024. Prudent management of working capital cycle amid ramp up of operations will be key rating monitorable.

Volatility in raw material prices

Raw materials such as copper, cold rolled grain oriented (CRGO) steel, insulation oil and radiators form majority of OTPL'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 OTPL to any major adverse raw material price fluctuation.

Stiff industry competition

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. However, OTPL has a good client base of private companies lowering counterparty risk to an extent.

Analytical Approach: Standalone

Applicable Criteria:



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[Policy on default recognition](#)

[Criteria of assigning Rating Outlook](#)

[Rating Methodology for Manufacturing Entities](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

Liquidity: Adequate

Liquidity position is adequate marked by sufficient cushion expected in cash accruals in the range of Rs. 17.00 crore to Rs. 40.00 crore in FY24-26 vis-à-vis repayment obligations of Rs.0.25 crore in FY24, Rs.1.27 crore in FY25 and Rs. 1.72 crore in FY26. The average month end working capital utilization of its fund based working capital limits is ~65% during the past 12 months ended January 2024 indicating a moderate liquidity buffer. The current ratio was 1.36x as on March 31, 2023. As on December 31, 2023, the company has cash and cash equivalent of Rs. 7.11 crore.

About the company

Ornet Transformers Private Limited was first established in the year 2014 as Ornet Transformers LLP. It was later converted into a private limited company in September 2023. It has a manufacturing unit in Gujarat for supplying a range of transformers and allied products like distribution transformers, power transformers, special purpose transformers and compact sub-stations which has its end use in various industries.



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Financials (Standalone):

	(Rs. crore)	
For the year ended / As On*	31-03-2022 (Audited)	31-03-2023 (Audited)
Total Operating Income	56.62	93.09
EBITDA	3.53	5.39
PAT	1.06	1.39
Total Debt	6.88	21.86
Tangible Net worth	19.50	19.06
Ratios		
EBITDA Margin (%)	6.24	5.79
PAT Margin (%)	1.87	1.48
Overall Gearing Ratio (x)	0.35	1.15

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: Nil

Rating History for last three years:

Sr N o.	Name of Instrument/Facil ities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstand ing (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan	Long Term	1.11	IVR BBB- / Stable	-	-	-
2.	Cash Credit	Long Term	3.30	IVR BBB- / Stable	-	-	-
3.	Bank Guarantee	Short Term	40.00	IVR A3	-	-	-
4.	Packing Credit/ Packing Credit in Foreign Currency	Short Term	2.70	IVR A3	-	-	-
5.	Overdraft	Short Term	1.00	IVR A3	-	-	-
6.	Proposed Facility	Long Term/ Short Term	11.89	IVR BBB- / Stable / IVR A3	-	-	-



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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Term Loan	-	-	January 2029	1.11	IVR BBB- / Stable
Cash Credit	-	-	-	3.30	IVR BBB- / Stable
Bank Guarantee	-	-	-	40.00	IVR A3
Packing Credit/ Packing Credit in Foreign Currency	-	-	-	2.70	IVR A3
Overdraft	-	-	-	1.00	IVR A3
Proposed Long Term / Short term Bank Facilities				11.89	IVR BBB- / Stable / IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-OTPL-4mar24.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.