

**Press Release**

**Vijay Transformers**

**January 23, 2018**

**Rating**

<b>Instrument / Facility</b>	<b>Amount</b>	<b>Rating</b>	<b>Rating Action</b>
Long term Bank Facilities	Rs.2.50 crores	IVR BB- with Stable Outlook (IVR Double B Minus with Stable Outlook)	Assigned
Long/Short term Bank Facilities	Rs.5.00 crores	IVR BB- with Stable Outlook/IVR A4 (IVR Double B Minus with Stable Outlook/IVR A Four)	Assigned
Short term Bank Facilities	Rs.1.00 crore	IVR A4 (IVR A Four)	Assigned
<b>Total</b>	<b>Rs.8.50 crores</b>		

**Details of Facility are in Annexure 1**

**Detailed Rationale**

The ratings are constrained by low profitability, moderate gearing and weak debt protection metrics, instances of overdrawal of working capital limits in the past year, customer and geographic concentration, small scale of operations, competitive nature of the industry and drawal from partners' capital. However, the ratings derive comfort from the experience of promoters and long track record. Profitability, gearing and managing working capital requirements are the key rating sensitivities.

**List of Key Rating Drivers**

- Low profitability
- Moderate gearing and debt protection metrics
- Overdrawal of working capital facility
- Customer and geographic concentration
- Small scale of operations

- Competitive nature of the industry
- Drawal from partners' capital
- Experienced promoter with long track record

### **Detailed Description of Key Rating Drivers**

#### **Key Rating Weaknesses:**

##### **Low profitability**

Vijay Transformers (VT) had a low PAT margin of 1.1% for FY17 (Previous year – 0.7%). It is an indication that the entities are facing intense competition and are unable to pass on the costs effectively to the clients.

##### **Moderate gearing and debt protection metrics**

VT had a gearing ratio of 0.2x as on March 31, 2017 which had improved from 1.3x as on March 31, 2016. But, the utilisation of the cash credit (CC) facility has increased in Q3FY18. The CC limit to Net Worth was 1.6x and CC limit to GCA was very high at 11.3x, as on March 31, 2017. The interest coverage was moderate at 1.5x as on March 31, 2017 (1.4x as on March 31, 2016).

##### **Overdrawal of working capital facility**

There were three instances of overdrawals in the last one year (till December 31, 2017) for the CC facility. The average utilisation was also high for the Q3FY18, implying that the liquidity position of the entity is stretched.

##### **Customer and geographic concentration**

The production facility of VT is located in Guntur, Andhra Pradesh. The production floor space is shared with SVR. The entity's clientele is comprised almost entirely of the State Electricity Boards (SEBs) of Andhra Pradesh and Telangana, indicating customer and geographic concentration.

### **Small scale of operations**

VT operates on a small scale as the total operating income for FY17 stood at Rs.16.7 crores. The company generated PAT of Rs.0.2 crore for FY17.

### **Competitive nature of the industry**

The power sector and especially the ancillary sector serving the main power generation and distribution companies is very competitive. It is evident from the very fine margins at which these companies operate at. Also, the process of allocating orders through the tendering process ensures that the playing field is even for all players and that the same entities cannot continue winning orders if they are not competitively priced. Also, the tenders are allotted to multiple entities by the SEBs to ensure that the orders are not concentrated with a single entity

### **Drawal from the partner's capital**

The partners have drawn funds from the business as evidenced from the reduction in the partners' capital account in FY17. Any drawals from the capital is a key monitorable for rating.

### **Key Rating Strengths**

#### **Experienced promoter with long track record**

The day to day activities of VT are managed by Mr. Venkateswara Rao Madala. He is qualified as an Electrical Engineer. He began his career as an engineer and after a gaining experience of around four years, set up SVR Electricals Pvt Ltd as a service provider for distribution transformers. Subsequently, he ventured into manufacturing of transformers, having gauged the demand and market dynamics and also set up M/s. Vijay Transformers which is also engaged in the same business.

The factory premises is situated in Guntur, Andhra Pradesh, with a shop floor of 45000-50000 sq. ft. The total manufacturing capacity is 24000 units (capacity estimated basis manufacture of 25 kVA transformers).

**Analytical Approach & Applicable Criteria**

Rating Methodology for Trading Companies

Financial Ratios & Interpretation – non-financial companies

**About the Company**

Vijay Transformers (VT) was set up as a proprietary firm in 1992, as a manufacturer of transformers, which was later turned in to a partnership. It manufacture a range of distribution transformers with capacity up to 1600 kVA. The manufacturing facility is situated in Guntur, Andhra Pradesh, with a shop floor of 45000-50000 sq. ft, which is shared with its sister concern SVR Electricals Private Ltd.

**Financials (Standalone)**

**(Rs. Crores)**

<b>For the year ended / Rs. Crs</b>	<b>31-03-2016</b>	<b>31-03-2017</b>
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	18.3	16.7
EBITDA	0.6	0.6
Interest	0.4	0.4
PAT	0.1	0.2
Total Debt	2.8	0.3
Tangible Net worth	2.1	1.8
<b><u>Ratios</u></b>		
a. EBIDTA Margin	3.1	3.8
b. PAT Margin	0.6	1.0
c. Overall Gearing ratio	1.3	0.2

**Status of non-cooperation with previous CRA:** ICRA has moved the rating of VT to the ‘ISSUER NOT COOPERATING’ category due to non-submission of monthly ‘No Default Statement’ (“NDS”) as per Press Release dated November 15, 2017.

**Any other information:** Nil

**Rating History for last three years:**

S. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Long Term Bank Facility - CC Facility	Long Term	2.50	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook)	--	--	--
2.	Long Term / Short Term Non-Fund Based Limits - Bank Guarantee	Long Term / Short Term	5.00	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook) and IVR A4 (IVR A Four)	--	--	--
3.	Short Term Non-Fund Based Limits – Letter of Credit	Short Term	1.00	IVR A4 (IVR A Four)			

**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](http://www.infomerics.com).

**Name and Contact Details of the Rating Analyst:**

Name: Shri Sriram Rajagopalan

Tel: (022) 40036966

Email: [srajagopalan@infomerics.com](mailto:srajagopalan@infomerics.com)

**About Infomerics:**

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities

and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an ‘as is where is’ basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

**Annexure 1: Details of Facility**

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility(Rs. Crores)	Rating Assigned/ Outlook
CC Facility	-	-	-	2.50	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook)
Bank Guarantee	-	-	-	5.00	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook) and IVR A4 (IVR A Four)
Letter of Credit	-	-	-	1.00	IVR A4 (IVR A Four)