

**CARE/JRO/RR/2018-19/1123**

**Mr Abhay Bhutoria**  
Managing Director  
**RTS Power Corporation Limited**  
C-174, Road No.9J,  
Vishwakarma Industrial Area, Chomu Road,  
Jaipur-302013

November 29, 2018

**Confidential**

Dear Sir,

**Credit rating for the Bank Facilities of Rs.123.50 crore**

Please refer to our rating letter dated November 19, 2018, on the above subject.

- 1) The rationale for the rating is attached as an **Annexure - I**.
- 2) We request you to peruse the annexed documents and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by November 30, 2018, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,  
Yours faithfully,



**[Harsh Raj Sankhla]**  
Sr. Manager

Encl: As above

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## Annexure - I

### Rating Rationale

#### RTS Power Corporation Limited

#### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term/Short-term Bank Facilities	83.07 (reduced from 84.07)	CARE BB+; Stable/ CARE A4+ (Double B Plus; Outlook: Stable/A Four Plus)	Revised from CARE BB; Stable/CARE A4 (Double B; Outlook: Stable/A Four)
Short-term Bank Facilities	40.43	CARE A4+ (A Four Plus)	Revised from CARE A4 (A Four)
<b>Total facilities</b>	<b>123.50</b> (Rupees One Hundred Twenty Three crore and Fifty lakh only)		

#### Rating Rationale

The revision in the ratings assigned to the bank facilities of RTS Power Corporation Limited (RTS) takes into account significant growth in its scale of operations during FY18 (refers to the period April 1 to March 31) as well as improvement in its debt coverage indicators and operating cycle during FY18.

The ratings, however, continue to remain constrained on account of its financial risk profile marked by fluctuating profitability margins, moderate debt coverage indicators and working capital intensive nature of operations. The ratings, are further, constrained on account of its presence in the highly competitive and fragmented transformers and cable and conductor industry along with susceptibility of the company's profitability to fluctuations in the raw material prices despite presence of price variation clause from contracts secured by SEB's which protect the operating margins to a certain extent.

The above constraints outweigh the benefits derived from the extensive experience of the promoters with its established track record of operations, its diversified revenue stream as

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

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*well as reputed clientele base, its healthy order book position providing medium term revenue visibility and moderate capital structure.*

*RTS's ability to achieve envisaged level of revenue and profitability along with improvement in its capital structure as well as efficient working capital management shall be the key rating sensitivities.*

## **Background**

RTS Power Corporation Ltd. (RTS) is a Kolkata based public limited company and is the flagship company of Kolkata based 'Bhutoria Group'. RTS was incorporated in 1947 as Bhanwarlal Bhutoria Pvt. Ltd. Later on, the company's constitution was changed to public limited in 1984 and subsequently, the name was changed to the present name, RTS, in 1994. The company got listed in 1995.

RTS is involved in the manufacturing of Single and Three phase Power Transformers (including Extra high voltage) having capacity 3.15 MVA to 50 MVA and Distribution transformers (including Dry-type transformers) having capacity 5 KVA to 3150 KVA as well as cables (XLPE/PVC Insulated Power & Control Cable, Aerial Bunched cables, railway signaling cables) and conductors (AAC, AAAC, ACSR) at its different manufacturing plants located at Jaipur (4 units), Howrah (1 unit) and Agra (1 unit). The company is also involved in power generation from its wind mills located at Dhule, Maharashtra (1.25 MW capacity) and Barmer, Rajasthan (0.60 MW capacity) which it sells to the respective state power distribution utilities. Apart from these, the interests of Bhutoria Group include Cold Storages, Real Estate and Ware Housing.

## **Credit Risk Assessment**

### ***Experienced experience of promoters in industry***

Mr Rajendra Bhutoria and his cousin Mr Abhay Bhutoria are the key promoters of RTS who have extensive experience of more than three decades in the industry and together look after the overall affairs of the company. Furthermore, the directors are supported by a team of managerial personnel including Mr R.L. Saini who looks after the finance and administrative function and technical team having relevant experience in their respective fields.

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***Established track record of operations with diversified revenue stream and reputed clientele base***

The company had set up its first plant at Jaipur for manufacturing transformers in 1971 and has, since 2006, forayed into manufacturing of cables and conductors as well. Presently, RTS manufactures both power and distribution transformers as well as cables and conductors. Furthermore, the company also manufactures semi-finished goods i.e. paper insulated copper wires and aluminium wire through processing of copper and aluminium rod which are used by RTS in the own manufacturing of transformers and cables & conductors and is also sold to different transformer manufacturers. RTS is an ISO 9001 Certified company and an approved vendor for all State Electricity Utilities in India. The company is also an approved vendor for Defence Services (MES & Air force), Indian Railways, CPWD, BSNL and different private sector companies. RTS's major customers include Power sector utilities such as Jodhpur Vidyut Vitran Nigam Ltd. (JdVVNL, rated CARE A-(SO); Stable), Jaipur Vidyut Vitran Nigam Ltd. (JVVNL, rated CARE A-(SO); Stable), Ajmer Vidyut Vitran Nigam Ltd. (AVVNL, rated CARE A-(SO); Stable), Chhattisgarh State Power Distribution Company Limited as well as other EPC players and transformer manufacturers namely Larsen & Toubro limited, Cabcon India Private Limited, Bajaj Electricals Limited (CARE A1+), Sterling & Wilson Private Limited (CARE A1+), Godrej & Boyce Man. Co. Ltd and Punj Llyod Limited.

***Significant growth in its scale of operations with healthy order book position***

The scale of operations of RTS as indicated by TOI grew significantly by around 94% to Rs.211.51 crore in FY18 owing to higher execution/supply of transformers of varying capacities supported by increased demand of its product profile factored by its established position in the industry. Furthermore, growth was also driven by increase in revenue generated from its cable and conductors segment owing to higher order secured and executed in H2FY18 as well higher other operating income.

During FY18, RTS earned around 65.60% of gross sales from transformers segment (59.58% in FY17), 33.29% from cable and conductors segment (13.30% in FY16), 0.51% was earned from sale of semi-finished products profile (26.08% in FY16), while rest was earned from wind power generation. Decline in revenue from sale of semi-finished products i.e. paper insulated copper wires and aluminium wire was mainly on account of higher use of the same

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by RTS in the own manufacturing of transformers, cables & conductors on account of healthy orders for transformers, cable and conductors. Additionally, other operating income (mainly interest and freight receipt) was Rs.7.66 crore i.e. around 3.62% of TOI in FY18 (Rs.5.80 crore i.e. 5.33% in FY17). Moreover, during FY18, RTS sold 10,377 transformers (3,294 units in FY17) across its product range while in the case of cable and conductors the sales volume grew by more than four times on y-o-y basis (from 1502 Km in FY17 to 6622 Km in FY18).

Moreover, as on September 01, 2018 RTS has an outstanding order book of Rs.189.94 crore forming 0.90 times of FY18's TOI with 77% of its present order book pertaining to supply of different range of transformers (including both power and distribution) which are likely to be executed within 12 months, while rest of the order book is pertaining to its cables and conductors segment, majority of which are to be executed within 3-4 months thereby providing medium-term revenue visibility.

Furthermore, as per H1FY19 result the company has already reported TOI of Rs.119.22 crore along with PBILDT and PAT of Rs.9.45 crore and Rs.2.64 crore respectively.

***Fluctuating albeit moderate profitability***

PBILDT margin of the company have exhibited fluctuating trend during past three financial years (FY16-18) mainly on account of its presence in the highly competitive tender driven industry coupled with different margins earned on the orders received across its transformers range/grade as well as on other product profile including cable and conductors as well as semi-finished goods. During FY18, PBILDT margin of the company decreased by around 138 bps to 7.49% on account of higher other expenses mainly pertaining to liquidated damages (on account of delay in supply of products to state power utilities) along with higher cost of raw materials consumed as well as selling expenses (mainly packing and freight cost). Despite decline in operating profit margin, PAT margin improved by 69 bps to 1.90% on the back of proportionately lower depreciation and interest expenses. Overall, GCA level of the company increased by around 93% to Rs.5.77 crore in FY18 as against Rs.3.00 crore in FY17.

### ***Moderate capital structure albeit moderately weak debt coverage indicators***

Owing to its high net worth base of Rs.53.37 crore, its capital structure continued to remain moderate with an overall gearing of 1.49 times as on March 31, 2018, although deteriorated from 1.15 times as on March 31, 2017, mainly on account of increase in total debt level which was attributed to higher utilisation of working capital bank borrowings (including bill discounting against letter of credit) along with increase in LC backed creditors as on balance sheet date to support its increased working capital requirement factored by higher sales reported in Q4FY18.

The total outstanding debt includes amount pertaining to bills discounted which are covered by letter of credits of Prime Banks, therefore after excluding the same RTS's adjusted overall gearing stood at 1.32 times as on March 31, 2017 (1.04 times as on March 31, 2017).

The debt coverage indicators of the company has exhibited improvement from FY17 level albeit remained moderate with total debt to GCA of 13.78 times as on March 31, 2018, improved from 18.80 times as on March 31, 2017, mainly on account of higher proportionate increase in its GCA level vis-à-vis total debt. Furthermore, interest coverage also improved to 1.88 times during FY18 as against 1.53 times in FY17 owing to proportionately lower interest expenses.

### ***Working capital intensive nature of operations***

RTS's operations are highly working capital intensive in nature supported largely by bank borrowings and funds by promoters. Furthermore, its operating cycle remained elongated at 111 days in FY18 though the same decreased from 177 days in FY17 due to better inventory management as well as improvement in collection period with an increase in scale of operations.

RTS over the years has reduced its dependence on state power utilities though these still form a sizeable portion of its revenue. The financial position of these state power utilities has deteriorated over the last few years resulting in longer time in clearance of invoices and final payments, thereby putting pressure on working capital of RTS; however there is no risk of bad debt. As a result dues for more than 6 months accounted for around 18% of total outstanding receivables as on March 31, 2018 (48% as on March 31, 2017) though reduced significantly from Rs.31.99 crore in FY17 to Rs.19.66 crore in FY18 and the same comprised

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around 26% as on September 30, 2018 with dues from state power utilities forming around 75% of total outstanding receivables as on September 30, 2018. Dues more than 6 months also comprises payment withheld/penalty by state power utilities against the delay in supply of transformers which ranges from 2.5% weekly up-to 10% of the total order value, depending upon the contract terms and time lapsed which is generally released after deducting liquidated damages upon appeal made by the company post completion of the entire order. However, as per the management the company appeals against such penalty (can be done after the completion of entire contract which normally takes 12- 16 months) as in many of the cases delay is partially attributed to longer time in issue of signed order copy along with final testing by concerned department. While the orders from private players do not have material price escalation clause, the payment is received timely as the supplies are made against LC and further there is no risk of imposition of liquidated damages which are charged by state power utilities for delay in supply of products. However, higher collection period is complimented by higher creditor period as the company generally purchases its raw material by opening LC of 90-180 days.

The average utilisation of fund-based working capital limit stood high with almost full utilisation during last 12 months period ended September 30, 2018. However, the current ratio and quick ratio stood moderate at 1.34 times and 1.01 times respectively as on March 31, 2018.

***Susceptibility of margins to volatile raw material prices albeit presence of price variation clause from orders secured from state power utilities***

The key raw materials for transformer manufacturing are copper, silicon steel, aluminium, Cold Rolled Grain Oriented (CRGO) steel core, transformer oils and transformer tanks while that for cable and conductors include aluminium rod, steel, PVC compound among others constituting approximately 75%-77% of TOI. Also, CRGO steel is mostly imported as the production technology is yet not widely available in India, resulting in added volatility in its prices due to movement in foreign exchange rates. The company sources CRGO steel as well as other raw materials like copper wires, transformer oil, aluminium, etc, from the domestic market. The prices of these raw materials are governed by demand-supply dynamics and had shown huge fluctuations in past few years. RTS is exposed to raw material price risk to

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the extent of loss in inventory value as the production process is long and it has to keep good amount of inventory of CRGO steel. Furthermore, RTS's sales are tender-driven. Due to the competitive nature of bidding, RTS has limited pricing power which restricts its operating margins. However, contracts from state power utilities are suitably guarded against increase in the raw material prices owing to built-in price escalation clause, protecting the operating margins to a certain extent. The applicable price variation is calculated as per the PV formula of Indian Electricals and Electronics Manufacturers' Association (IEEMA) while for cable and conductors as per the PV formula of Cable & Conductors Manufactures Association of India's (CACMAI).

***Fragmented nature of industry leading to stiff competition from organized and unorganized players***

Transformer as well as cable and conductors industry is highly fragmented with presence of many organised and unorganised players. Furthermore, due to the low entry barriers owing to low capital requirement and readily available technology, there are large numbers of organized and unorganized players present in the manufacture of both the segment. The high degree of fragmentation restricts the pricing flexibility and bargaining power of small players which is further intensified by the tender driven nature of the industry.

**Financial Performance**

	(Rs. Cr)		
<i>For the period ended / as on March 31,</i>	2016	2017	2018
	(12m, A)	(12m, A)	(12m, A)
<b><u>Working Results</u></b>			
Net Sales	139.33	103.01	203.85
Total Operating income	145.21	108.80	211.51
PBILDT	8.90	9.65	15.84
Interest	7.37	6.32	8.42
Depreciation	1.57	2.02	2.03
PBT	2.70	1.59	5.60
PAT (after deferred tax)	2.11	1.31	4.01
Gross Cash Accruals	3.58	3.00	5.77
<b><u>Financial Position</u></b>			
Equity Share capital	8.17	8.17	8.17
T Net Worth	46.72	48.85	53.37
Total Capital Employed	85.40	113.87	121.38
<b><u>Key Ratios</u></b>			
<i>Growth</i>			
Growth in Total income (%)	-15.54	-25.07	94.40

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For the period ended / as on March 31,	2016 (12m, A)	2017 (12m, A)	2018 (12m, A)
Growth in PAT (after D.Tax) (%)	237.07	-37.81	205.33
<i>Profitability</i>			
PBILDT/Total Op. income (%)	6.13	8.87	7.49
PAT (after deferred tax)/ Total income (%)	1.46	1.21	1.90
ROCE (%)	11.40	9.22	12.76
<i>Solvency</i>			
Long-term Debt Equity ratio (times)	0.19	0.16	0.15
Overall gearing (times)	1.06	1.15	1.49
PBILDT/Interest (times)	1.21	1.53	1.88
PBIT/Interest (times)	1.00	1.21	1.64
Term debt/Gross cash accruals (years)	2.43	2.62	1.42
Total debt/Gross cash accruals (years)	13.91	18.80	13.78
<i>Liquidity</i>			
Current ratio (times)	1.57	1.46	1.34
Quick ratio(times)	1.09	0.91	1.01
<i>Turnover</i>			
Average collection period (days)	175	177	147
Average inventory (days)	91	133	78
Average Creditors (days)	143	133	113
Operating cycle (days)	123	177	111

A: Audited

### Details of Rated Facilities

#### 1. Long-term/Short-term Facilities

##### 1. A Fund-based Limits

(Rs. Cr)

S. No.	Name of the Bank	Fund-based Limits		
		Cash Credit	Others	Total fund-based Limits
1.	Bank of Baroda	11.19	-	11.19
2.	ICICI Bank	3.00	-	3.00
3.	State Bank of India	4.50	-	4.50
4.	OBC Bank	3.80	-	3.80
5.	Canara Bank	0.25	-	0.25
	<b>Total</b>	<b>22.74</b>		<b>22.74</b>

##### 1. B Non-fund-based Limits

(Rs. Cr)

S. No.	Name of the Bank	Non-fund-based Limits		
		Bank Guarantee	Others	Total Non-fund-based Limits
1.	Bank of Baroda	31.37	-	31.37
2.	ICICI Bank	7.00	-	7.00
3.	State Bank of India	CARE Rating Limited	-	2.00

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4.	OBC Bank	11.76	-	11.76
5.	Canara Bank	0.40	-	0.40
6.	Proposed	7.80	-	7.80
	<b>Total</b>	<b>60.33</b>	<b>-</b>	<b>60.33</b>

**Total Long-term/Short-term facilities (1.A+ 1.B): Rs.83.07 crore**

## 2. Short-term Facilities

### 2. A Non-fund-based Limits

(Rs. Cr)

S. No.	Name of the Bank	Non-fund-based Limits		
		Letter of Credit	Others	Total Non-fund-based Limits
1.	Bank of Baroda	23.79	-	23.79
2.	ICICI Bank	7.00	-	7.00
3.	State Bank of India	2.50	-	2.50
4.	OBC Bank	7.14	-	7.14
	<b>Total</b>	<b>40.43</b>	<b>-</b>	<b>40.43</b>

**Total Short-term facilities (2.A): Rs.40.43 crore**

#### Disclaimer

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