

RATING RATIONALE

09 Sept 2019

RTS Power Corporation Ltd.

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹109.96 Crores of RTS Power Corporation Ltd. ('RTSPL' or 'the Company')

Particulars

Facility	Amount (₹ Crs)	Tenure	Assigned Rating*
	Present		
Fund based	22.74	Long Term	BWR BBB- Stable
	50.27		
Non Fund Based	36.95	Short Term	BWR A3
Total	109.96	Rs.One Hundred Nine crores and Ninety Six Lakhs Only	

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

RATING ACTION/ OUTLOOK: Assigned long term rating of BWR BBB- (Pronounced as BWR Triple B Minus) Stable and short term rating of BWR A3 (Pronounced as BWR Single A Three)

BWR believes the **RTS Power Corporation Ltd.'s** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

KEY RATING DRIVERS

BWR has principally relied upon the audited financial results of the company upto FY19, unaudited financial result for Q1FY20, publicly available information and information/clarifications provided by the management of the company and their representatives.

The Ratings draw strength from the experience of the promoters, improving scale of operations as reflected by growth in revenues during FY18 and FY19, comfortable gearing profile and profitability margins. The Ratings also factor in improvement in cash conversion cycle, diversification of markets with exports to Ethiopia and the UK, change in client mix with 70% revenues being derived from the private sector and 30% from government sector

and proposal for manufacture of galvanised wires and strips that would ensure stable supply of a key input for core operations at reduced prices. The ratings are, however, constrained by working capital intensive nature of business operations and high competition prevalent in the industry. During FY19, interest coverage declined to 1.19x from 1.67x in FY18 due to increase in borrowing costs on account of interest expense on financial assets (Rs.5.80 crs) that also includes Rs.5.68 crs arising due to fair value adjustments on pre redemption of preference shares (correspondingly, Rs.5.06 crs is shown in other income that is part of non operating income).

Credit Strengths:

- (1) Experienced promoters: Promoters of the company are well experienced and qualified in matters relating to finance, marketing, production, general administration and management. Sardul Singh Jain, aged 83 years, is Chairman of the company with professional expertise in finance, taxation, legal and management of more than 50 years. Rajendra Bhutoria, aged 61 years has experience in general administration, production, marketing and finance.
- (2) Improving scale of operations: During FY18 and FY19, revenues of the company grew by 76% and 18% respectively to touch Rs. 213 crs in FY18 and Rs.252 crs in FY19 mainly on account of launch of central government initiatives under 'Power for All' scheme and other schemes like DDUGJY and IDPS. During the current FY, the company expects to achieve total revenues of Rs.210 crs on a conservative basis given the current state of Indian economy and market conditions. The company has already achieved revenues of Rs.44 crs in Q1 FY20 and expects to gain traction during the last two quarters of FY, when government entities places large orders, as per budgeted grants.
- (3) Comfortable gearing profile and profitability margins: Gearing viz. Total Debt/TNW and TOL/TNW remained comfortable at 0.28x and 0.91x respectively in FY19 against 0.33x and 1.44x respectively in FY18. Operating profit margin and net profit margin have improved marginally from 6.70% and 1.96% respectively in FY18 to 6.75% and 2.19% respectively in FY19.

Credit Concerns:

- (1) Working Capital intensive nature of business: Business operations of the company have remained working capital intensive due to high cash conversion cycle (89 days and 87 days in FY18 and FY19 respectively) owing to predominantly high contribution of government business in total revenues where average credit period offered is more than 150 days.
- (2) High competition and fragmented industry: Transformer industry is characterised by low entry barriers and presence of large number of medium players that tend to increase competition and reduce the bargaining power of suppliers.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology on a standalone basis, as per the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positive: Rating may be upgraded in case of at least 40% improvement in scale of operations from current scale of Rs.251 crs and reduction in working capital cycle from current level of 87 days in FY19, that should be mainly driven by improvement in receivables holding (from current level of 138 days), besides at least a 20% improvement in profitability margins from current levels, given stable scale of operations, apart from improvement in all key financial parameters including liquidity & gearing ratios and debt protection metrics.

Negative: Rating may be downgraded in case of failure in achieving projected revenues of Rs.210 and/or deterioration in profitability margins. Rating may also be adversely affected in case of adverse economic and market factors, and if the government focus towards electrification and infrastructure turns weak.

LIQUIDITY POSITION (*Adequate*)

Liquidity position of the company is comfortable with positive net working capital that has improved from Rs.48 crs in FY18 to Rs.51 crs in FY19 and low long term debt. Cash conversion cycle has improved to 87 days in FY19 against 169 days in FY17 mainly on account of improvement in receivables holding (from 182 days in FY17 to 138 days in FY19) and efficient inventory management. Improvement in payables days from 143 days in FY18 to 117 days in FY19 indicates improving liquidity. The company is comfortably placed to service interest on working capital borrowings with average interest coverage of 1.37x for past three financial years.

KEY FINANCIAL INDICATORS

Key Parameters	Units	2018	2019
Result Type		Audited	Audited
Operating Revenue	₹ Cr	213.18	251.72
EBITDA	₹ Cr	14.28	16.98
PAT	₹ Cr	4.18	5.50
Tangible Net worth	₹ Cr	104.15	113.14
Total Debt/Tangible Net worth	Times	0.33	0.28
Current Ratio	Times	1.41	1.65

COMPANY PROFILE

RTS Power Corporation Ltd., incorporated in 1947 with its current registered office at 56 Netaji Subhas Road, Kolkata is engaged in the business of manufacturing and marketing of Extra High Voltage Power and Distribution transformers. RPCL is the flagship company of the Bhutoria group and Rajendra Bhutoria, Abhay Bhutoria, Sardul Singh Jain, Alok Kumar Banthia, Rachna Bhutoria and Ram Lal Saini are the directors in the company. Initially, the company was incorporated as a private limited company and converted into a public limited company in the year 1984.

The company has manufacturing units located in Jaipur (2 units), Agra and Kolkata. Transformers and other products are supplied domestically to various State Electricity Boards, DGS&D, MES, Air Force, CPWD, BSNL, RSBCC/RSRDC, PWD, Co-operative Societies, Industrial Houses, Residential Complexes, Hotels, Collieries etc and are also exported to Ethiopia and the UK. The company is in the process of establishing galvanised wire and strips manufacturing plant at total installed production capacity of 12000 TPA that would reduce its dependency for galvanised wires and is likely to result in input cost rationalisation.

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : NIL

RATING HISTORY (Including withdrawn and suspended)

S.No	Instrument /Facility	Current Rating			Rating History		
		Type Tenure	Amount (₹ Crs)	Rating	2018	2017	2016
1	Fund Based-Cash Credit	Long Term	22.74	BWR BBB-Stable	N.A	N.A	N.A
2	Non Fund Based - BG		50.27				
3	Non Fund Based - LC	Short Term	36.95	BWR A3	N.A	N.A	N.A
Total			109.96	₹ One Hundred Nine crores and Ninety Six Lakhs Only			

ANNEXURE I: Details of bank loan facilities

	Bank	Limit	Amt. Rated Rs. Crs	Type
Consortium	ICICI Bank , Jaipur	CC	3.00	FB-Long Term
		LC	6.00	NFB-Short Term
		BG	8.00	NFB-Long Term
	Bank of Baroda, Jaipur	CC	3.19	FB-Long Term
		LC	13.79	NFB-Short Term
		BG	16.37	NFB-Long Term
	Oriental Bank of Commerce, Jaipur	CC	3.80	FB-Long Term
		LC	4.66	NFB-Short Term
		BG	8.50	NFB-Long Term
Non Consortium	Bank of Baroda, Jaipur	CC	8.00	FB-Long Term
		LC	10.00	NFB-Short Term
		BG	15.00	NFB-Long Term
	Canara Bank, Agra	CC	0.25	FB-Long Term
		BG	0.40	NFB-Long Term
	State Bank of India, Kolkata	CC	4.50	FB-Long Term
		LC	2.50	NFB-Short Term
		BG	2.00	NFB-Long Term

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)



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