

## Tesla Transformers (India) Limited

November 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	5.61 (Reduced from 7.75)	CARE BBB-; Positive	Reaffirmed; Outlook revised from Stable
Long-term / Short-term bank facilities	65.00	CARE BBB-; Positive / CARE A3	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	25.00	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

### 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 along with adequate liquidity. The ratings also take into cognizance growth in the company's total operating income (TOI) during FY23 (FY refers April 01, 2022 to March 31, 2023).

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 along with the company's presence in a competitive transformer industry.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Volume driven growth in TOI beyond ₹300 crore along with sustained PBILDT margin of 5% or above
- Improvement in Return on Capital Employed (ROCE) above 15%
- Sustenance of overall gearing below unity.
- Sustained improvement in operating cycle below 90 days with reduced reliance on external borrowings; resulting in better liquidity

#### Negative factors

- Decline in TOI to lower than ₹100 crore or decline in PBILDT margin below 3% on a sustained basis
- Any large-sized debt-funded capex resulting in deterioration in overall gearing beyond 1.50x or moderation in debt coverage indicators on sustained basis
- Elongation in operating cycle beyond 120 days and increase in external borrowings to fund these requirements, on sustained basis

### Analytical approach: Standalone

Till last review, support extended by way of corporate guarantee for the bank facilities (bank guarantees) availed by Tesla Transformers Limited (TTL) was also considered. However, this guarantee has now been released.

Both TTIL and another group entity Tesla Transformers Global Private Limited (TGTPPL) had extended unconditional and irrevocable joint and several corporate guarantees for the bank guarantee limit availed by TTL (performance bank guarantee (BG) limit for the BGs extended prior to demerger).

As on September 30, 2023, total bank exposure of TTL comprised ₹4.00 crore of BG limit (which was on 100% margin), business operations of TTL have been closed and Corporate Guarantee extended to TTL jointly by TTIL and TGTPPL has been released.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Outlook: Positive

CARE Ratings Limited (CARE Ratings) has revised the outlook from 'Stable' to 'Positive' on account of expectations of sustained growth in the company's TOI backed by healthy order book, along-with improvement in return indicators.

## Detailed description of the key rating drivers:

### Key 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 TTL from which it has been demerged. At present, the company is managed by Jaideep Jain, an electrical engineer and son of Late V. K. Jain (promoter founder of the Tesla group) and family members. Jaideep Jain possesses experience of around three decades in the 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 secures 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.

Furthermore, TTIL exports transformers to various countries including Australia, South Africa, Afghanistan, Libya, Bangladesh, and Nepal. Exports constitute a moderate portion of TTIL's gross sales (around 31% in FY23, 25% in FY22).

TTIL's clientele remained diversified as sales from its top 10 customers stood at 53% of total sales in FY23 (44% in FY22), indicating moderate customer concentration. Furthermore, the proportion of sales to private players remains at around 60%, where payments are backed by advance and letter of credit (LC) or are through vendor financing, mitigating the counter party risk to some extent.

**Moderate capital structure and debt coverage indicators:** The capital structure of TTIL continued to remain moderate marked by overall gearing of 0.97x as on March 31, 2023 (P.Y.: 0.73x). Also, the corporate guarantee extended to TTL by TTIL has been duly released, which shall contribute towards sustenance of moderate capital structure.

TTIL is undertaking capex for setting up a facility to manufacture and sell larger class of transformers upto 220 KV class from the present average range of around 66 to 132 KV Class at the estimated cost of ₹12.00 crore, to be funded by term loan of ₹9.00 crore, which is under sanction. Despite availment of the term debt for the said capex, overall gearing is projected to remain around unity over the medium term. Nevertheless, controlled working capital cycle shall remain crucial for the debt profile of the entity.

The debt coverage indicators of the company continued to remain moderate during FY23 marked by PBILDT interest coverage of 2.17x (P.Y.:1.46x), though Total Debt/GCA remained high at 8.81x (P.Y.: 10.51x) owing to moderate profitability.

### Key rating weaknesses

**Growing albeit moderate scale of operations and moderate profitability:** During FY23, TOI of TTIL increased by around 57% y-o-y. However, its scale of operations continued to remain moderate at ₹269.27 crore (P.Y.: ₹171.28 crore). The growth in scale of operations was on account of 19% volume growth registered during FY23 on y-o-y basis; TTIL had sold 1750 MVA of transformers during FY23 vis-à-vis 1465 MVA sold during FY22. Further during H1FY24, TTIL registered sales of ₹142.43 crore vis-a-vis ₹93.62 crore registered in H1FY23. Sales volume stood at 950MVA during H1FY24.

As on October 11, 2023, TTIL had outstanding order book of ₹295.81 crore to be executed largely in FY24, which shall result in sustained growth in its total operating income during the year. Also, scale of operations of the company is projected to gradually improve further to over ₹400-450 crore by FY26, through capacity addition project being undertaken by TTIL. Post this capex, installed capacity of TTIL shall increase upto 3,000 MVA/Annum. The entire capacity is expected to become operational by June 2024.

TTIL's operating profitability also continued to remain moderate with PBILDT margin of 4.84% in FY22 (P.Y.:4.46%) owing to competitive nature of industry. During FY23, sales realization improved to ₹14,24,371/MVA (P.Y.: ₹11,00,890/MVA) with sale of higher KV class transformers. ROCE stood moderate at 15.89%, during FY23 (10.70% during FY22).

Profitability and return indicators are expected to improve marginally with growth in TOI, but remain range bound.

**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 (70-80%) 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.

Furthermore, 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 (exports formed around 31% of TOI during FY23 vis-à-vis imports of 10% of total cost of materials consumed), which provides natural 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: Adequate

TTIL's liquidity profile stood adequate and improved with increase in scale of operations during FY23, marked by improved operating cycle at 74 days during FY23 (P.Y:110 days) driven by improvement in both inventory holding and collection period. The average utilization of its fund-based limits remained moderate at around 85% for the trailing 12 months ended September 2023.

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. However, its gross operating cycle remained improved to 162 days in FY23 (P.Y: 203 days).

TTIL receives considerable credit period from its suppliers, which lends support to its overall working capital cycle.

TTIL also needs to provide bank guarantee for its supplies to distribution companies, owing to which, the average utilization of non-fund based limit stood moderate at 80% for the trailing 12 months ended September 2023. In order to support growth in scale of operations, TTIL has availed enhancement in fund-based limit of ₹5 crore, and non-fund based limit of ₹20 crore during FY23. This provided cushion to its liquidity to certain extent.

#### 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](#)

[Policy on Withdrawal of Ratings](#)

#### About the company and industry

##### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Electrical equipment	Other electrical equipment

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 the Jain family and undertakes manufacturing of power and distribution transformers.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (Prov.)
Total operating income	171.28	269.27	142.43
PBILDT	7.64	13.03	NA
PAT	2.48	5.61	NA
Overall gearing (times)	0.73	0.97	NA
Interest coverage (times)	1.46	2.17	NA

A: Audited Prov.: Provisional, NA: Not Available Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

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

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### 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	2.51	CARE BBB-; Positive
Fund-based - LT-Working capital demand loan		-	-	-	3.10	CARE BBB-; Positive
Fund-based - LT/ ST-CC/PC/Bill discounting		-	-	-	25.00	CARE BBB-; Positive / CARE A3
Non-fund-based - LT/ ST-bank guarantee		-	-	-	40.00	CARE BBB-; Positive / 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 2023-2024	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
1	Fund-based - LT/ST-CC/PC/Bill discounting	LT/ST*	25.00	CARE BBB-; Positive / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (17-Nov-22) 2)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)
2	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	40.00	CARE BBB-; Positive / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (17-Nov-22) 2)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)
3	Non-fund-based - ST-Letter of credit	ST	25.00	CARE A3	-	1)CARE A3 (17-Nov-22) 2)CARE A3 (04-Aug-22)	1)CARE A3 (05-Jul-21)	1)CARE A3 (04-Jan-21)
4	Fund-based - LT- Working capital demand loan	LT	3.10	CARE BBB-; Positive	-	1)CARE BBB-; Stable (17-Nov-22) 2)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	2.51	CARE BBB-; Positive	-	1)CARE BBB-; Stable (17-Nov- 22)	-	-
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\*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not Applicable

**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the 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: Lender details**

To view the lender-wise details of bank facilities please [click here](#)

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

### Contact us

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#### About us:

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