INDO TECH

July 15, 2022

Department of Corporate Services
Bombay Stock Exchange Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai – 400 001
Scrip Code: 532717

Listing Department
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C/1, G Block,
Bandra Kurla Complex, Bandra (E),
Mumbai – 400 051
Symbol: INDOTECH

Sub: Intimation of Revision (Upgrade) in Credit Rating

Dear Sir/ Madam,

Pursuant to Para A of Part A of Schedule III of SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015, we hereby submit the revision in credit rating from ICRA as tabulated below:

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Cash Credit	16.00	16.00	**[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Positive);** outlook revised to Stable from Positive
Short-term Non-fund Based	91.00	91.00	**[ICRA]A3; upgraded from [ICRA]A4+**
Long-term Term Loan	8.00	8.00	**[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Positive);** outlook revised to Stable from Positive
Short-term Unallocated	23.50	24.00	**[ICRA]A3; upgraded from [ICRA]A4+**
CEL Limits	0.50	-	**[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Positive);** outlook revised to Stable from Positive
Issuer Rating	-	-	**[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Positive);** outlook revised to Stable from Positive
Total	**139.00**	**139.00**	

The rating letter and rationale for revision has been annexed to this letter. The rationale for revision shall also be made available in the ICRA's website.

We request you to take the same on record and oblige.

Yours faithfully,
For Indo Tech Transformers Limited

Manikandan Digitally signed by Manikandan
Date: 2022.07.15 17:40:38 +05'30'

Manikandan M
Company Secretary & Compliance Officer

Ref: ICRA/Indotech transformers Limited/15072022/1

Date: July 15, 2022

Mr. Saikrishnan C.P.
Chief Financial Officer
Indotech Transformers Limited
S. No. 153-210, Illuppapattu Village,
P.O. Rajakulam, KM. 64,
Chennai Bangalore Highway
Kancheepuram – 631561.

Dear Sir,

Re: Surveillance of ICRA-assigned Credit Rating for Rs. 139.00 crore Lines of Credit of Indotech Transformers Limited.

Please refer to the Rating Agreement dated July 03, 2017 and August 10, 2017 between ICRA Limited ("ICRA") and your company, whereby ICRA is required to review its ratings, on an annual basis, or as and when the circumstances warrant so. Based on a review of the latest developments, the Rating Committee of ICRA, after due consideration, has upgraded the long-term rating to **[ICRA]BBB-** (pronounced ICRA triple B minus) from [ICRA]BB+ and the short-term rating to **[ICRA]A3** (pronounced ICRA A three) from [ICRA]A4+. The outlook on the long-term rating is Stable. The long-term rating **[ICRA]BBB-** indicates moderate degree of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk. The short-term rating **[ICRA]A3** indicates moderate degree of safety regarding timely payment of financial obligations. Such instruments carry higher credit risk as compared to instruments rated in the two higher categories.

In any of your publicity material or other document wherever you are using the above Rating(s), it should be stated as **[ICRA]BBB-(Stable)/A3.**

The aforesaid Rating(s) will be due for surveillance any time **before July 12, 2023**. However, *ICRA* reserves the right to review and/or, revise the above Rating(s) at any time on the basis of new information becoming available, or the required information not being available, or other circumstances that ICRA believes could have an impact on the Rating(s). Therefore, request the lenders and Investors to visit ICRA website at www.icra.in for latest Rating(s) of the Company.

The Rating(s) are specific to the terms and conditions of the Instrument as indicated to us by you, and any change in the terms or size of the same would require a review of the Rating(s) by us. In case there is any change in the terms and conditions or the size of the rated Instrument, the same must be brought to our notice before the Instrument is used by you. In the event such changes occur after the Rating(s) have been assigned by us and their use has been confirmed by you, the Rating(s) would be subject to our review, following which there could be a change in the Rating(s) previously assigned. Notwithstanding the foregoing, any change in the over-all limit of the Instrument from that specified in the first paragraph of this letter would constitute an enhancement that would not be covered by or under the said Rating Agreement.

The Rating(s) assigned must be understood solely as an opinion and should not be treated, or cause to be treated, as recommendation to buy, sell, or hold the rated Instrument availed/issued by your company.

You are also requested to forthwith inform us about any default or delay in repayment of interest or principal amount of the instrument rated, as above, or any other debt instruments/ borrowing and keep us informed of any other developments which may have a direct or indirect impact on the debt servicing capability of the company including any proposal for re-schedulement or postponement of the repayment programmes of the dues/ debts of the company with any lender(s) / investor(s). Further, you are requested to inform us immediately as and when the borrowing limit for the instrument rated, as above, or as prescribed by the regulatory authority(ies) is exceeded.

We look forward to your communication and assure you of our best services.

With kind regards,
Yours sincerely,
For ICRA Limited

Digitally signed by GIRISHKUMAR KASHIRAM KADAM
Date: 2022.07.15 12:07:03 +05'30'

Girishkumar kadam
Senior Vice President and Co-Group Head
girishkumar@icraindia.com

ICRA

Annexure

Details of Bank Limits Rated by ICRA (Rated on Long-Term Scale)	Amount (Rs. crore)	Rating	Rating Assigned on
	Cash Credit Limits		
State Bank of India	15.00	[ICRA]BBB- (Stable)	July 12, 2022
Bank of Baroda	1.00	[ICRA]BBB- (Stable)	July 12, 2022
Total	**16.00**		

Details of Bank Limits Rated by ICRA (Rated on Long-Term Scale)	Amount (Rs. crore)	Rating	Rating Assigned on
	Term Loan Limits		
State Bank of India	8.00	[ICRA]BBB- (Stable)	July 12, 2022
Total	**8.00**		

Details of Bank Limits Rated by ICRA (Rated on Long-Term Scale)	Amount (Rs. crore)	Rating	Rating Assigned on
	Issuer Rating		
NA	-	[ICRA]BBB- (Stable)	July 12, 2022
Total	**-**		

Details of Bank Limits Rated by ICRA (Rated on Short-Term Scale)	Amount (Rs. crore)	Rating	Rating Assigned on
	LC/BG		
State Bank of India	65.00	[ICRA]A3	July 12, 2022
Bank of Baroda	26.00	[ICRA]A3	July 12, 2022
Total	**91.00**		

Details of Bank Limits Rated by ICRA (Rated on Short-Term Scale)	Amount (Rs. crore)	Rating	Rating Assigned on
	Unallocated Limits		
NA	24.00	[ICRA]A3	July 12, 2022
Total	**24.00**		

July 15, 2022

Indotech Transformers Limited: Ratings upgraded; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Cash Credit	16.00	16.00	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Positive); outlook revised to Stable from Positive
Short-term Non-fund Based	91.00	91.00	[ICRA]A3; upgraded from [ICRA]A4+
Long-term Term Loan	8.00	8.00	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Positive); outlook revised to Stable from Positive
Short-term Unallocated	23.50	24.00	[ICRA]A3; upgraded from [ICRA]A4+
CEL Limits	0.50	0.00	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Positive); outlook revised to Stable from Positive
Issuer Rating	-	-	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Positive); outlook revised to Stable from Positive
Total	**139.00**	**139.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in the continued improvement in Indotech Transformers Limited's (ITL) financial risk profile, led by sustained revenue growth and profit margins along with a comfortable liquidity position. In FY2022, ITL's revenues rose 36% YoY to Rs. 280 crore from Rs. 206 crore in FY2021. Given the current order book of Rs. 261.4 crore as of March 2022 end and the company's plans for testing capacity expansion, the company's revenues are expected to grow at a healthy rate in FY2023. The operating margin also improved to 7.9% in FY2022 and 5.6% in FY2021, led by the company's increased focus on higher load capacity power transformers as well as the improvement in the operating efficiencies. ICRA also takes in to account the improvement in the credit profile of the parent, Shirdi Sai Electricals Limited (SSEL; rated [ICRA]BBB-(Stable)/[ICRA]A3).

Further, the ratings derive comfort from the extensive experience of the promoter, Shirdi Sai Electricals Limited (SSEL), and ITL's proven operational track record in the transformer industry spanning nearly three decades. The ratings positively factor in SSEL's established position and its significant scale of operations in the transformer industry, which is expected to provide operational synergies to ITL and lend economies of scale. ICRA also takes note of the company's comfortable capital structure and debt protection metrics.

However, the ratings are constrained by high customer concentration risk with the top 10 customers accounting for 63% of the total sales in FY2022. Nonetheless, the counterparty risk remains low owing to its reputed clientele. Further, ITL operates in the transformer industry, which is highly fragmented and competitive, resulting in pricing pressures to some extent. The ratings also consider the high working capital intensity of operations and the susceptibility of profitability to the volatility in raw material prices as 30-40% of the order mix does not have a price variation clause.

The Stable outlook on the rating reflects ICRA's expectation that ITL will continue to maintain its credit profile, backed by expected sustained revenue growth, and comfortable debt coverage indicators and liquidity position.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and ITL's proven track record – ITL's promoter - SSEL – has a vast experience in the transformer industry, spanning nearly three decades. This, coupled with its extensive presence and proven operational track record in the power and distribution transformer industry, will help establish better relationships with customers and gain new orders. ITL also derives synergic benefits in procuring raw material at economical prices and economies of scale through joint sourcing, joint lead generation and reduction in manufacturing cost.

Comfortable order book and improved margins –The company's order book stood at Rs. 261.4 crore as of March 2022, which is 0.92 times the gross operating income reported in FY2022, providing adequate revenue visibility over the next few months. Further, the operating margin improved to 7.9% in FY2021 against 5.6% in FY2021, led by the company's increased focus on higher load capacity power transformers where the realisations and margins are better as well as the overall improvement in the operating efficiencies post the change in the management. The current order book and new order inflows are expected to translate into higher turnover and profitability in FY2023.

Comfortable capital structure and debt coverage metric – ITL's capital structure remains comfortable, aided by its healthy net worth position (Rs. 145.1 crore as on March 31, 2022) and relatively low dependence on fund-based bank borrowings. The capital structure was robust as illustrated in TOL/TNW of 0.6 times as on March 31, 2022. The company plans to incur a capex of Rs. 28.00 crore over FY2023 and ~Rs. 12 crore p.a. in FY2024-FY2025, which will be predominantly funded through a term debt and the balance through internal accruals. Nonetheless, the debt protection metrics are expected to remain comfortable with an interest coverage ratio of more than 3 times and TD/OPBDITA of less than 1 time in FY2023.

Credit challenges

High client concertation risk– ITL's revenue from the top-10 clients accounted for around 64% of the total revenues in FY2021 and 63% of the revenues in FY2022, exposing the company to client concentration risk. However, the counterparty risk remains low owing to its reputed clientele and LC-backed sales to most of the private players. Further, the established relationship with the customers and the execution track record ensure repeat business.

Stiff industry competition– Even though ITL's profit margins improved in FY2021 and FY2022, it continues to be modest due to competitive pressures. ITL operates in the transformer industry, which is highly fragmented and competitive, limiting its pricing flexibility and margins.

Volatility in raw material prices – ITL's profitability remains exposed to the volatility in raw material prices. Nonetheless, majority (~65% of the current order book) of the contracts have price escalation clauses based on the published indices, thereby protecting the margins to an extent.

Relatively high working capital intensity - ITL exhibits high working capital intensity, inherent in the industry it operates in, due to the high receivable period and inventory requirements. However, the working capital intensity has improved to 21% in FY2022 against 32% in FY2021.

Liquidity position: Adequate

ITL's liquidity position is adequate as the company has cushion in the form of unutilised fund-based working capital facility (average utilisation remains at 64% in the past 12 months) and unencumbered cash of around Rs. 22.27 crore as on March 31, 2022. The company has monthly LC maturities of about Rs. 10-13 crore lined up in the near term. However, the estimated cash flows are expected to remain adequate and will facilitate the debt obligations, going forward.

Rating sensitivities

Positive factors- The ratings could be upgraded if the company demonstrates a significant improvement in its scale and margins while maintaining an adequate liquidity position. An improvement in the credit profile of the parent entity will also support a rating upgrade.

Negative factors – The ratings could be revised downwards if a deterioration in the scale and profitability weakens the key credit metrics or deteriorates SSEL's credit profile. Also, any stretch in the working capital position or any large debt-funded capex that weakens the liquidity position could exert negative pressure on the ratings. A specific credit metric for a downgrade would be an interest coverage of less than 2.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Implicit support from the Parent or Group Support
Parent/Group support	Parent Company: Shirdi Sai Electricals Limited (SSEL); 70.01% stake in ITL. ICRA expects SSEL to be willing to extend financial and operational support, should there be a need.
Consolidation/Standalone	The ratings are based on the standalone financials of Indotech Transformer Limited

About the company

ITL, incorporated in 1992, manufactures power and distribution transformers and various special application transformers and mobile sub-station transformers. The company's manufacturing plants are at Chennai and Kancheepuram in Tamil Nadu.

ITL is a subsidiary of Shirdi Sai Electricals Limited, and SSEL currently holds a 70.01% stake in ITL. SSEL had bought a majority stake from ITL's erstwhile promoters - Prolec GE (a joint venture between Mexican industrial group Xignux S.A. de C.V., and General Electric Company) recently. Shirdi Sai Electricals Limited (SSEL; rated [ICRA]BBB- (Stable)/[ICRA]A3), incorporated in 1994, manufactures power and distribution transformers (up to 20 MVA, 66 kV). The company has a transformer manufacturing facility at Kadapa, Andhra Pradesh. It designs and manufactures power and distribution transformers to cater to the needs of electricity utilities and private enterprises. SSEL also provides solutions for power transmission and distribution systems through its turnkey projects division.

Key financial indicators (audited)

ITL Standalone	FY2020	FY2021	FY2022
Operating income (Rs. crore)	205.3	206.0	280.1
PAT (Rs. crore)	1.9	6.3	12.2
OPBDIT/OI (%)	1.0%	5.6%	7.9%
PAT/OI (%)	0.9%	3.0%	4.4%
Total outside liabilities/Tangible net worth (times)	0.6	0.4	0.6
Total debt/OPBDIT (times)	-	-	-
Interest coverage (times)	0.8	3.8	3.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore) as on March 31, 2022	Date & rating on	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020	
					July 15, 2022	Mar 07, 2022	Aug 16, 2021	Sep 29, 2020	Feb 17, 2020	Aug 28, 2019
1	Cash Credit	Long-Term	16.00	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)	[ICRA]BB (Stable)	-	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)
2	Non-fund based limits	Short-Term	91.00	-	[ICRA]A3	[ICRA]A4+	[ICRA]A4	[ICRA]A4	[ICRA]A4+	[ICRA]A4+
3	Term Loan	Long-Term	8.00	0.6	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)				
4	Unallocated	Short-Term	24.00	-	[ICRA]A3	[ICRA]A4+	[ICRA]A4	[ICRA]A4	[ICRA]A4+	[ICRA]A4+
5	CEL	Long-Term	0.00	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)	-	[ICRA]BB (Negative)	-	-
6	Issuer Rating	-		-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)	[ICRA]BB(Stable)	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Non-fund based limits	Very Simple
Term Loan	Simple
Unallocated	NA
CEL	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Non-fund based limits	NA	NA	NA	91.00	[ICRA]BBB- (Stable)
NA	Term Loan	FY2022	NA	FY2028	8.00	[ICRA]BBB- (Stable)
NA	Cash credit	NA	NA	NA	16.00	[ICRA]BBB- (Stable)
NA	Unallocated – Short term	NA	NA	NA	24.00	[ICRA]A3
NA	Issuer Rating	NA	NA	NA	-	[ICRA]BBB- (Stable)

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis- Not applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Sanket Thakkar
+91 79 4027 1528
sanket.thakkar@icraindia.com

Preet Ludhwani
+91 79 4027 1542
preet.ludhwani@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches