

August 07, 2017

Department of Corporate Services
Bombay Stock Exchange Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai – 400 023
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

Dear Sirs,

Sub: - Credit Rating Intimation in terms of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

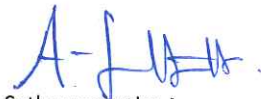
This is to inform you that, ICRA Limited (The Credit Rating Agency) has assigned a long-term issuer rating of IrBBB- (pronounced I R triple B minus) to Indotech Transformers Limited (The Company).

We are enclosing herewith the credit rating letter of the ICRA.

This is for your kind information and Record. Kindly acknowledge receipt.

Yours faithfully,

For Indo Tech Transformers Limited



Sathyamoorthy A
Company Secretary & Compliance Officer

IndoTech Transformers Limited

CIN: L29113TN1992PLC022011

Regd. Off : S.No.153-210, Illuppapattu Village, Near Rajakulam, Chennai-Bangalore Highway, Kancheepuram - 631 561.

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Indotech Transformers Ltd.

July 10, 2017

ICRA assigns issuer rating of IrBBB-(Stable) to the Indotech Transformers Ltd.

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Issuer Rating	NIL	IrBBB-(Stable); assigned

*Instrument details provided in Annexure-1

Rating action

ICRA has assigned a long-term issuer rating of IrBBB- (pronounced I R triple B minus) to Indotech Transformers Limited (ITL)¹. The outlook on the long-term rating is Stable.

Rationale

The assigned rating favourably factors in the strong support that the company derives from Parent Company - Prolec GE International S de R.L. C.V., Mexico (Prolec-GE). Prolec-GE is a closely held JV between General Electric (GE) and Xignux of Mexico. ITL has a track record of 4 decades in the transformers industry and technology transfer from Prolec-GE has benefited the company. The rating also factors in the diverse client base of reputed private and government entities in power and manufacturing segments. The rating also takes comfort from a robust capital structure and adequate liquidity position. The rating also takes cognizance of outstanding order book position providing revenue visibility in near term.

However, the rating is constrained by loss incurred by the company at operating and net level in FY2017. ICRA also takes notes of losses incurred by the company in the past few years mainly on account of high overheads and low gross margin. However, with expected improvement in the scale of operations, the company is expected to break even by benefitting from economies of scale. ICRA also takes note of the vulnerability, of the company's weak profitability to the risk of adverse fluctuations in raw material prices. However, Price variation clause in equipment supply contracts to state power utilities helps protect the margins to some extent from adverse fluctuations in commodity prices. The rating also factors in the low pricing power of the company, as a result of competitive pressures in the Indian transformer industry. ICRA also notes the high working capital intensity in FY2017 due to increase in receivables and inventory position as on March 31, 2017.

Going forward, the ability of the company to break even by improving turnover to benefit from economies of scales and level of support from parent will be key rating sensitivities.

Credit Strength

- **Strong linkage between parent and subsidiary:** The rating factors into consideration, the continued linkage with its parent, Prolec GE International S de R.L. C.V., Mexico (Prolec-GE). Prolec-GE supports ITL by providing technical know-how and also in obtaining export orders. In the past, Prolec-GE had extended a financial grant of Rs.149 Crore, to repay its long standing term loan. The parent has also waived its sales commission around ~3 Crores in FY2016.
- **Experienced promoters in transformers industry spanning over 4 decades:** ITL was incorporated in the year 1976, and was taken over by Prolec-GE in the year 2008. The company has a track record of 4 decades in the transformers industry; also, the acquisition by Prolec-GE has benefited the company with know-how.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

- **Financial profile characterised by strong gearing:** ITL has a tangible net worth of 138 crore, due to the voluntarily repayable financial grant of 149 crore extended by the parent in FY 2015. The company operates majorly by non-fund based facilities (i.e.), letter of credit and bank guarantee, and also, cash credit facility used minimally. Due to the above financial profile, the gearing continues to remain strong in FY 2018.
- **Diversified customer base, characterised by reputed customers:** ITL has a mix of both private and government customers, where the concentration on private customers is comparatively significant. Thereby, the customer concentration risk is diversified. Also, ITL has reputed customers, such as, L&T, Gamesa, JSW, Adhani renewable energy park, etc.

Credit weakness

- **Operating loss and negative cash accruals is due to delay in order execution:** ITL faced delays in execution of orders, due to various operational issues, including the Vardha cyclone. This factor, coupled with, increase in provision for debtors and inventory led to operating loss in FY 2017. Also, ITL made an income tax settlement to the tune of 3.5 Crores; this further affected the bottom line of the company. Going forward, ITL is expected to scale up its production and generate profits, as there is moderate revenue visibility in FY2018.
- **Accumulated losses have eroded 50% of peak net-worth:** Since the acquisition by Prolec GE in FY 2008, the net-worth of the company has eroded more than 50% due to accumulated losses; Nevertheless, due to strong parentage and timely fund infusion, ITL net-worth remains comfortable at 138 Crores as on 31st March 2017.
- **Stretched working capital intensity and poor coverage metrics:** Stretched working capital intensity is due to increase in receivables by 18% and increase in unsold inventory by 34% due to delay in orders. Nevertheless, in FY 2018, 90% of unsold inventory is expected to be sold by H1; thereby, the working capital intensity will be moderated. The coverage ratio and DSCR have been poor at -0.2 and -2.9 respectively, primarily, because of fall in operating income by 21% in FY 2017.
- **Profitability is vulnerable to any adverse fluctuation in raw material prices:** The margins of the company are largely affected by the raw material price fluctuation which in turn affects the sales realisations. Any adverse movement in raw material price could have an adverse impact on the company's margins, considering the limited ability to pass on the price hike owing to high competitive intensity.
- **High competition from several players exerts pressure on operating margin:** ITL faces stiff competition from several players in the fragmented industry, which limits pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Impact of Parent or Group Support on an Issuer's Credit Rating](#)

About the company:

Indo Tech Transformers Limited is a manufacturer of power and distribution transformers and various special application transformers, mobile sub-station transformers, and substations. Established in 1976, the company has manufacturing plant located in Chennai in Tamil Nadu. ITL is a subsidiary of Prolec GE which holds 75% stake. Prolec GE is a major player in transformer industry with footprints across four continents in over 30 countries. Prolec GE is a JV between a Mexican industrial group, called Xignux and General Electric, a well-known global company. Xignux is a Mexican industrial consortium based in Monterrey, Nuevo Leon; it has four divisions, namely, Cables, Transformers, Infrastructure, and Foods. They operate over 25 production facilities and a diversity of distribution centers in Mexico, the USA, India, Brazil, and Colombia. General Electric (GE) is an American multinational conglomerate corporation incorporated in New York and headquartered in Boston, Massachusetts. The company operates in diverse sectors, such as Aviation, health care, Pharmaceutical, Automotive, Engineering, etc.

In FY2017, ITL reported a net loss of Rs. 16.3 crore on an operating income of Rs. 150.4 crore, as compared to a net profit of Rs. 4 Crores on an operating income of Rs. 191.1 crore in the previous year.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	191.1	150.4
PAT (Rs. crore)	4.0	-16.3
OPBDIT/ OI (%)	1.3%	-0.3%
RoCE (%)	4.2%	-7.6%
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.0
Interest coverage (times)	1.0	-0.2
NWC/ OI (%)	35.5%	48.8%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:**Table:**

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2016	Date & Rating in FY2015	Date & Rating in FY2014
					June 2017	-	-	-
1	Issuer Rating	NA	NA	NA	IrBBB-(Stable);	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	-	-	-	-	IrBBB-(Stable);

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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



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