

Press Release

No. 38/2017
10 March 2017

TRIS Rating Affirms Company Rating and Outlook of "TRT" at "BBB/Stable"

TRIS Rating has affirmed the company rating of Tirathai PLC (TRT) at "BBB" with "stable" outlook. The rating reflects the company's leading position in domestic electrical transformer market and its capability to produce both power and distribution transformers across a diverse range of capacities and system voltages. The rating also incorporates TRT's opportunities in export markets. However, these strengths are partially offset by a worrisome outlook for the domestic transformer market, fierce competition, and TRT's elevated financial leverage.

The "stable" outlook reflects the expectation that TRT will maintain its competitive position in the electrical transformer industry. TRT is expected to secure more orders and strengthen its profitability as the market rebounds. Moreover, TRT's subsidiaries are expected to generate acceptable earnings and cash flow.

A rating upgrade is unlikely in the near term as leverage is expected to remain high. The industry-wide slowdown and stiff competition will continue to take a toll on profitability. However, the rating could be upgraded if TRT's operating performance improves significantly, the total debt to capitalization stays below 45%, and the operating margin improves to 10%-15% on a sustainable basis. In contrast, the rating and/or outlook could be revised downward should TRT's operating performance fall short of expectation and its financial leverage deteriorate further. An interest bearing debt to equity ratio above 1.5 times would also be a negative factor for the credit rating.

Founded in 1987, TRT is a leading manufacturer of made-to-order transformers. TRT also provides related services, such as transformer installation and maintenance. TRT was listed on the Market for Alternative Investment (MAI) in May 2006. Mr. Sumpan Vongphan, the managing director, and the key managers are the company's major shareholders, with a combined stake of 29% as of December 2016. The company has recently diversified into the assembling of hydraulic crane trucks, customized metalwork, and O&M (maintenance and operation) services through its subsidiaries.

TRT's performance in 2016 fell short of TRIS Rating's estimate, chiefly on account of a lingering slowdown in the domestic market. However, TRT reported a 14% increase in revenue year-on-year (y-o-y) in 2016 and a Bt61 million profit. TRT recovered from a net loss in 2015, which was largely caused by a hefty loss from an overseas project undertaken by a subsidiary.

The current rating reflects TRT's leading position in the domestic market for electrical transformers. TRT is one of a few transformer manufacturers in Thailand which is capable of producing both power and distribution transformers. TRT's power transformers have capacities of up to 300 megavolt-amperes (MVA), at system voltages of up to 230 kilovolts (kV). The distribution transformers range in capacity from 1 kilovolt-amperes (KVA) to 10 MVA, at system voltages of up to 36 kV. TRT is amongst a few qualified transformer producers to sell power transformers to state enterprises. Moreover, TRT's competitive position is strengthened as it holds a license from Siemens, a world-renowned transformer maker. Under the terms of the license agreement, Siemens provides support for TRT's product designs and serves as a market reference for TRT's power transformers. Moreover, the rating reflects TRT's opportunities in export markets, particularly countries with robust demand for electricity. TRT recently expanded the capacity of the transformer factory as a means to enhance its competitive advantage. In the first quarter of 2017, the size of the factory rose to 9,000 MVA from 5,000 MVA. The expansion will support TRT's growth plans over the next five to seven years.

Although prospects for the transformer industry remain encouraging as demand for electricity rises, the rating is partially constrained by a worrisome outlook for the domestic transformer market. Moreover, delays continue in the processes of bidding and awarding contracts at domestic electricity authorities and at private sector buyers. The delays carried into 2016 and remained beyond the control of transformer producers. In addition, competitive bidding brings fierce competition in the domestic market. Many transformer makers saw dramatic deteriorations in profitability because they took significant markdowns in order to get purchase orders from clients.

(Continue on page 2)

Despite the industry-wide squeeze on profits, TRT's operating performance improved in 2016, thanks to a sizable order backlog. Revenue totaled Bt2.54 billion, growing by 14% y-o-y. The rise in revenue was due primarily to the timely delivery of products and services, especially for private sector clients. TRT's decision to diversify into the O&M segment generated a significant rise in recurring income. Joint Venture L.D.S.-N.D.P.Co.,Ltd. (JV), its subsidiary, provides O&M services. The JV started operations in 2015 and booked revenue of Bt111 million. Revenues of the JV were healthier in 2016, climbing to Bt299 million. The rise boosted TRT's performance significantly. The revenues of the JV accounted for 12% of TRT's total revenue. However, TRT's revenue fell short of expectations in 2016. Delays in bid tenders at state enterprises and lower-than-expected orders from private sector clients in Thailand and abroad meant sales did not rise as quickly as forecasted. Selling and administration expenses rose dramatically to Bt576 million in 2016, a rise of 22% y-o-y. The increase was due mainly to the substantial costs incurred at its subsidiaries. The costs appeared inevitable as the subsidiaries invested resources in developing the expertise needed to offer more services related to electrical transformers, such as EPC (engineering, procurement, and construction) and O&M services. Despite the rise in costs, profitability improved, due in part to the larger contribution on the higher-margin businesses of TRT's subsidiaries. As a result, the operating margin before depreciation and amortization improved from 0.2% in 2015 to 6.0% in 2016. TRT recorded a net profit of Bt61 million in 2016 after posting a net loss of Bt46 million for the prior year. Funds from operations (FFO), defined as operating cash flow before changes in working capital less interest and tax expenses, recovered to Bt118 million in 2016. Earnings before interest, tax, depreciation and amortization (EBITDA) also grew, rising from Bt38 million to Bt167 million during the same period.

The rating is also tempered by TRT's elevated financial leverage. At the end of 2016, TRT's debt climbed to Bt1.65 billion from Bt1.35 billion at the end of 2015. The increase was due chiefly to escalated working capital and additional capital expenditures needed constructing to finish the new factory. The sharp increase in accounts receivable over the past two years put pressure on liquidity and leverage. The elevated level of leverage remains a rating concern because TRT, at the current level, is on the brink of breaching the financial covenant in its debentures. Interest-bearing debt to equity stood at 1.45 times as of 2016, against the imposed limit of 1.5 times. Total debt to capitalization increased to 59.4% from 55.6% at the end of 2015. However, cash flow protection was slightly healthier in 2016 due mainly to remarkable gains at its subsidiaries. The EBITDA interest coverage ratio hit a record of 3.9 times in 2016 from 0.7 times in 2015. The FFO to total debt ratio improved to 7.1% in 2016.

Going forward, TRT's financial performance is expected to improve once the state enterprises resume a normal bidding schedule and private sector investment rebounds. Additionally, TRT had a backlog worth Bt2.21 billion at the end of 2016. About 66% of the backlog is scheduled to be delivered in 2017. Under TRIS Rating's base-case scenario, TRT's annual revenue is forecasted to grow and range from Bt3-4 billion over the next three years. EBITDA is expected to improve to Bt250-Bt450 million per year. The debt to capitalization ratio is expected to hover around 55%-60% during 2017-2019.

Tirathai PLC (TRT)
Company Rating:
Rating Outlook:

BBB
 Stable

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