

# TIRATHAI PLC

No. 147/2019  
20 September 2019

## CORPORATES

**Company Rating:** BB+  
**Outlook:** Stable

**Last Review Date:** 24/09/18

### Company Rating History:

| Date     | Rating | Outlook/Alert |
|----------|--------|---------------|
| 24/09/18 | BBB-   | Negative      |
| 19/09/17 | BBB-   | Stable        |
| 29/02/16 | BBB    | Stable        |
| 25/01/11 | BBB+   | Stable        |

### Contacts:

Suchana Chantadisai  
suchana@trisrating.com

Nauwarut Temwattanangkul  
nauwarut@trisrating.com

Parat Mahuttano  
parat@trisrating.com

Monthian Chantarklam  
monthian@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating downgrades the company rating on Tirathai PLC (TRT) to “BB+” from “BBB-” and revises the rating outlook to “stable” from “negative”. The downgrade reflects continued deterioration in the company’s competitive and financial strengths amidst a dismal outlook of the transformers production industry.

The rating reflects TRT’s long track record and its ability to produce both power and distribution transformers with wide-ranged capacities and system voltages. However, these strengths are severely weighed down by the fierce competitions from both overseas and domestic transformers producers, TRT’s inability to control operating cost, and its weak cash flow protection.

## KEY RATING CONSIDERATIONS

### Long track record with a broad product line

TRT has long-established presence in the domestic transformers market for more than three decades. Backed by its capability to produce both power and distribution transformers with wide-ranging capacities and system voltages, TRT is among the top five electrical transformers producers in Thailand.

The company is one of a few manufacturers that are qualified to sell power transformers to state enterprises. Moreover, TRT has licensing contract with Siemens Transformers Austria GmbH & Co KG (Siemens) which helps TRT maintain its competitive advantage.

In addition, TRT has exported electrical transformers for more than 10 years. The overseas markets have expanded, with customers in many Asian countries such as Singapore, Malaysia, and Sri Lanka. TRT still sees growth opportunities in overseas markets.

### Core business hurt by fierce competition

TRT’s competitive strengths in the power transformers segment, which is dominated by a few producers, have been heavily dampened by Chinese manufacturers with licensing from internationally-known firms like ABB and Siemens. The tough price competition has persistently put strain on TRT’s strengths of products offered, forcing the company to mark down its merchandises.

As for distribution transformers segment, the barrier to entry is even lower. There are more than 20 manufacturers of distribution transformers in Thailand, suggesting an even more price-driven competitive marketplace.

TRT’s gross margin of transformer sales, which ranged from 20%-23% during 2012-2014, steadily declined to average about 18% over the past three years, a reflection of the abated competitive position.

Amid all the negative impacts from fierce competition, TRT is hoping to take advantage of the new bidding criteria announced by the Provincial Electricity Authority (PEA). The new bidding criteria give more weight to product efficiency (60%) than product price (40%). With TRT’s expertise in transformers and high quality of its products, TRT is in a good position to win the contract.

### Dismal outlook of the transformers industry

TRIS Rating has slashed the outlook for the domestic transformers market.

The demands for electrical transformers hinge primarily upon expansions of power infrastructures. These include increase of installed production capacity, extension of transmission systems, and growth of private investments for industrial and residential uses. TRIS Rating views that the domestic demand for electricity will continue to grow, but at a slow pace.

The domestic transformers producers continue to endure the slow-moving procurement proceedings and delayed bidding of the electricity authorities. This is due in part to the lengthy formation of the new government. Meanwhile, the private sector investment has remained sluggish. For the first half of 2019, both public and private investments were slower than expected, representing merely a 2.6% growth year-on-year (y-o-y).

TRT has strived to address the diminishing allure of the transformers market. The company has branched into non-transformer businesses, i.e., the assembling of hydraulic crane trucks, customized metalwork, and operation and maintenance services (O&M) through its subsidiaries. The non-transformer businesses have made up about 30% of total revenue over the past five years. TRIS Rating views that the diversification efforts have not paid off yet, as TRT continues to suffer from a loss-making subsidiary.

### **Stressed profitability**

TRT incurred losses successively in 2017 and 2018 as it was not able to bring down significant operating cost. TRT is unlikely to revive its profitability in 2019, with revenue target remaining out of reach. For the first half of 2019, TRT demonstrated weaker-than-expected sales and operating margin (operating income before depreciation and amortization as percentage of sales). TRT's revenue undershot our previous forecast, arriving at Bt1.0 billion or 35% of the full-year forecast. The operating margin came in at 5.2%, compared with our forecast of 7%.

In our base case forecast, we expect TRT's revenue in 2019 to arrive at Bt2.3 billion, given the backlog of Bt1.7 billion as of June 2019. Operating margin could decline to 4.6%. We forecast the company's revenue to range at Bt2.2-Bt2.4 billion per year during 2020-2022, based on our expectation that the state enterprises resume a normal bidding schedule and private sector investment rebounds. Over the forecast period, we lower overall gross margin to around 20%-22%, as we expect stiff competition will linger and TRT's high-margin O&M work will end by 2019. TRT plans to streamline its loss-making subsidiary, a move aimed to achieve a substantial reduction of operating expenses. As such, operating margin could improve to 7%-8% during 2020-2022.

### **Weak cash flow protection**

We expect funds from operations (FFO) of TRT to decline to merely Bt30 million in 2019. FFO could recover to around Bt100-Bt120 million per year in 2020-2022. That said, TRT's cash flow protection will remain weak. The ratio of FFO to debt will range at 9%-10%. Earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage ratio is likely to stay below 3 times.

As of June 2019, TRT's total debt stood at Bt1.34 billion, half of which were short-term loans for working capital. TRT had cash of around Bt170 million while it had long-term debentures coming due of Bt400 million towards the end of 2020. Given the low level of FFO, we expect TRT will need to refinance all outstanding debentures. The company has arranged long-term bank facilities for the refinancing.

### **BASE CASE ASSUMPTIONS**

- Sales of transformers to grow 5% per annum during 2020-2022.
- Revenue from non-transformer segment to be around Bt300-Bt500 million per annum.
- Overall gross margin to be 20%-22%.
- Operating margin to be 5% in 2019 and 7%-8% during 2020-2022.
- Capital expenditures to be Bt40 million per year.

### **RATING OUTLOOK**

The "stable" outlook reflects our expectation that TRT will maintain its competitive position in the domestic electrical transformers industry. We expect TRT to secure more orders as the market condition gradually improves. We also expect TRT to significantly bring down operating expenses over time so that the operating margin will gradually improve.

### **RATING SENSITIVITIES**

A rating upgrade is unlikely in the near term but it could occur only if TRT generates more sizable cash flow from improving profitability, which will significantly escalate cash flow protection against debt over a sustained period, with operating margin exceeding 8%, the ratio of FFO to debt exceeding 13%, and the EBITDA interest coverage ratio staying over 3 times.

On the other hand, TRT's rating could be downgraded if operating performance weakens further, which could occur if TRT

suffers losses as a result of lower gross margins and failure to cut operating costs as planned.

**COMPANY OVERVIEW**

TRT was established in 1987 and listed on the Market for Alternative Investment (MAI) in May 2006. As of March 2019, TRT’s key directors and managers were major shareholders, with combined stake of 29%. TRT is a leading manufacturer of power and distribution transformers in Thailand. The company’s customer base comprises three groups: state enterprises, private companies, and export customers. State enterprises include the Metropolitan Electricity Authority (MEA), the PEA, and the Electricity Generating Authority of Thailand (EGAT). Private sector customers are mostly construction contractors, including factories and large buildings. The export markets are mainly Asian countries.

TRT’s power transformers have capacities of up to 300 megavolt-amperes (MVA), at system voltages of up to 500 kilovolts (kV). The distribution transformers range in capacity from 1 kilovolt-amperes (KVA) to 10 MVA, at system voltages of up to 36 kV. In 2017, TRT’s production capacity rose to 9,000 MVA from 5,000 MVA.

Apart from selling and providing service concerning transformers, TRT via its subsidiaries, offers other products and services such as aerial cranes, digger derricks, steel fabrication, engineering procurement and construction (EPC), and O&M.

TRT has three plants at Bangpu Industrial Estate, Samutprakarn. The company utilized 61% of its total production capacity in 2018. In 2018, transformer sales and services contributed 74% of TRT’s total revenue, while the rest was from subsidiaries’ sales and services.

**KEY OPERATING PERFORMANCE**

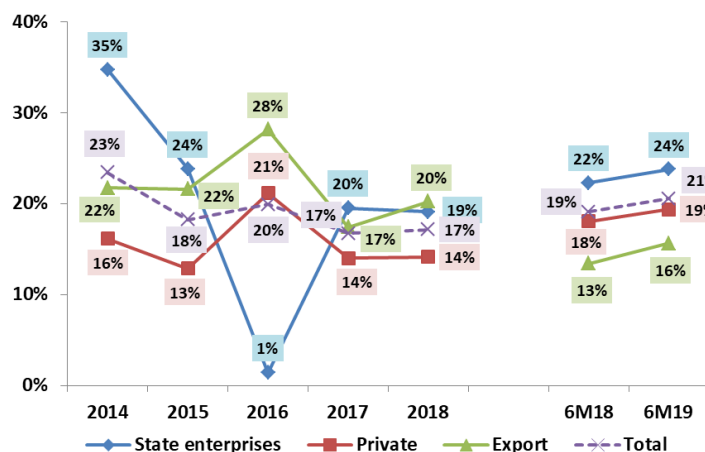
**Table 1: TRT’s Revenue Breakdown**

*Unit: %*

|                                   | 2014         | 2015         | 2016         | 2017         | 2018         | Jan-Jun 2019 |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| State enterprises                 | 24           | 11           | 11           | 22           | 17           | 26           |
| Private                           | 35           | 30           | 40           | 27           | 34           | 37           |
| Export                            | 15           | 29           | 19           | 16           | 22           | 8            |
| Transformer components            | 0            | 0            | 1            | 1            | 1            | 1            |
| Services revenue                  | 3            | 3            | 3            | 3            | 2            | 1            |
| Revenues from subsidiaries        | 23           | 27           | 26           | 31           | 24           | 27           |
| <b>Total</b>                      | <b>100</b>   | <b>100</b>   | <b>100</b>   | <b>100</b>   | <b>100</b>   | <b>100</b>   |
| <b>Total revenue (Bt million)</b> | <b>2,132</b> | <b>2,224</b> | <b>2,537</b> | <b>2,430</b> | <b>2,616</b> | <b>1,021</b> |

Sources: TRT

**Chart 1: TRT’s Transformer Gross Margin**



Sources: TRT

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Bt million

|  | Jan-Jun<br>2019 | -----Year Ended 31 December ----- |        |       |        |
|--|-----------------|-----------------------------------|--------|-------|--------|
|  |                 | 2018                              | 2017   | 2016  | 2015   |
| Total operating revenues   | 1,033           | 2,630                             | 2,448  | 2,551 | 2,258  |
| Operating income   | 54              | 161                               | 74     | 197   | 62     |
| Earnings before interest and taxes (EBIT)                                | 13              | 63                                | (27)   | 131   | (12)   |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 64              | 167                               | 70     | 210   | 62     |
| Funds from operations (FFO)  | 29              | 69                                | 26     | 139   | 16     |
| Adjusted interest expense  | 33              | 69                                | 65     | 47    | 58     |
| Capital expenditures   | 16              | 37                                | 102    | 304   | 259    |
| Total assets   | 2,942           | 3,152                             | 3,147  | 3,304 | 3,025  |
| Adjusted debt  | 1,308           | 1,299                             | 1,275  | 1,464 | 1,104  |
| Adjusted equity  | 977             | 1,015                             | 1,035  | 1,127 | 1,077  |
| <b>Adjusted Ratios</b>   |                 |                                   |        |       |        |
| Operating income as % of total operating revenues (%)                    | 5.23            | 6.12                              | 3.02   | 7.72  | 2.73   |
| Pretax return on permanent capital (%) **                                | 1.87            | 2.44                              | (0.98) | 4.78  | (0.50) |
| EBITDA interest coverage (times)   | 1.94            | 2.42                              | 1.08   | 4.46  | 1.07   |
| Debt to EBITDA (times) **  | 8.63            | 7.78                              | 18.31  | 6.96  | 17.71  |
| FFO to debt (%) **   | 3.83            | 5.28                              | 2.00   | 9.47  | 1.46   |
| Debt to capitalization (%)   | 57.23           | 56.14                             | 55.20  | 56.51 | 50.61  |

\* Consolidated financial statements

\*\* Annualized from the trailing 12 months

## RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

## Tirathai PLC (TRT)

Company Rating:

BB+

Rating Outlook:

Stable

## TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

© Copyright 2019, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at [www.trisrating.com/rating-information/rating-criteria](http://www.trisrating.com/rating-information/rating-criteria)