September 05, 2022

# Supreme Power Equipment Private Limited: Long-term rating upgraded and Short term rating reaffirmed; rating removed from Issuer Not Cooperating; rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long Term - Fund Based-Cash credit** | 4.00 | 4.00 | [ICRA]BB- (Stable); upgraded from [ICRA]B+ (Stable); removed from Issuer Not Cooperating Category |
| **Long Term - Fund Based-Bill discounting** | - | 15.00 | [ICRA]BB- (Stable); assigned |
| **Fund Based - Term Loan** | - | 5.45 | [ICRA]BB- (Stable); assigned |
| **Short Term - Non Fund Based BG/LC** | 15.00 | 18.00 | [ICRA]A4; reaffirmed; removed from Issuer Not Cooperating Category/assigned |
| **Total** | **19.00** | **42.45** | |

**Instrument details are provided in Annexure-1*

## Rationale

ICRA has upgraded the ratings assigned to Supreme Power Equipment Private Limited (SPEPL) and removed it from the Issuer Not Cooperating (INC) category owing to the company's co-operation in concluding the rating exercise.

The ratings draw comfort from the operational track record of SPEPL in the engineering business for over a decade and its established relationship with the primary customers, Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) and Tamil Nadu Transmission Corporation Limited (TANTRANSCO). It also factors in the order book position of Rs. 36.13 crore as of July 2022, which provides near-term revenue visibility.

The ratings are, however, constrained by the company's moderate scale of operations over the years. The operating margins remained steady with a slight decline from 7.8% in FY2021 from 7.5% in FY2022 due to an increase in raw material consumption. The ratings also factor in the high customer concentration risk with over 87% of the revenue coming from the top client (TANGEDCO), as well as the highly fragmented nature of the industry, which limits the pricing flexibility. Further, the working capital intensity remains high due to the stretched receivables. However, the company's liquidity is supported by the availability of bill discounting facility (bills up to 240 days' maturity can be discounted).

The Stable outlook on the rating reflects ICRA's opinion that SPEPL will continue to benefit from the extensive experience of its promoters in the engineering business. While ICRA expects the company's sales to grow gradually, the debt coverage indicators are expected to remain average in the near term as the company has modest profit margins and dependence on working capital borrowings.

## Key rating drivers and their description

### Credit strengths

**Established track record of operations** – SPEPL was established in 2005 and has been involved in the business of manufacturing transformers, mainly distribution and power transformers. The promoters of SPEPL, Mr. Vee Rajmohan and Mr. K. V. Pradeep, have close to two decades of experience in the transformer industry and provide direct technical support in the execution of projects.

**Unexecuted order book position provides revenue visibility** – The company had an outstanding order book position of Rs. 36.13 crore as of July 2022, providing near-term revenue visibility. Around 84% of the orders are from TANGEDCO and TANTRANSCO, indicating its ability to garner repeat orders from the key customers.

## Credit challenges

**Moderate scale of operations –** The company recorded a revenue growth of 32% in FY2022, supported by increase in orders from the key customer. Nonetheless, the scale of operations remains moderate, thereby limiting the operational and financial flexibility. Further, intense competition in the industry and the moderate scale of operations limit SPEPL's ability to bargain with its suppliers and customers, exerting pressure on its operating margin and working capital cycle.

**Average financial risk profile –** SPEPL's operating margins remained moderate with a slight decline from 7.8% in FY2021 from 7.5% in FY2022 due to an increase in raw material consumption. PAT/OI remained constant at around 1% for the last three years. The financial risk profile is moderate with gearing of 1.3 times and TOL/TNW of 3.9 times as on March 31, 2022. The TOL/TNW is higher on account of low net worth base and high trade payables/borrowings. Further, the coverage indicators were average with an interest coverage of 1.4 times in FY2022.

**High customer concentration risk–** TANGEDCO and TANTRANSCO remain the major customers of SPEPL, contributing to about 87% of its revenues in FY2022, increased from 53% in FY2018. High customer concentration risk accentuates the impact of any order volatility on its revenue growth and accruals. Further, due to slow payment realisation from the state discoms, the company's receivable position is stretched resulting in high working capital intensity. However, its liquidity is supported by the availability of bill discounting facility (bills up to 240 days maturity can be discounted).

## Liquidity position: Stretched

The company's liquidity position is stretched with the estimated annual cash accruals expected to tightly match against the scheduled debt repayment obligations in FY2023. Moreover, the average working capital utilisation of the working capital limits remained high at 70% for the past 12 months ended March 2022.

## Rating sensitivities

**Positive factors –** ICRA could upgrade the ratings if the company demonstrates a healthy and sustained improvement in its scale and profitability, leading to improvement in the key credit metrics and liquidity position. A Specific credit metric that may lead to an upgrade includes the interest coverage ratio improving to more than 2.0 times on a sustained basis.

**Negative factors –** Negative pressure on the ratings could arise if there is a significant decline in revenue or margins, weakening the coverage indicators. Any significant stretch in the working capital cycle or large debt-funded capex resulting in liquidity pressure may also lead to a rating downgrade.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | [Corporate Credit Rating Methodology] |
| **Parent/Group Support** | Not Applicable |
| **Consolidation/Standalone** | The ratings are based on the company's standalone financial statements. |

## About the company

SPEPL, incorporated in 2005, primarily manufactures transformers, mainly distribution, power and windmill transformers. Its customer profile includes TNEB, Vestas and Gamesa, and its manufacturing facility is near Chennai. The company is promoted by Mr. Vee Rajmohan and Mr. K. V. Pradeep, who have been in the business of transformer manufacturing since 2000.

### Key financial indicators (audited)

| SPEPL– Standalone | FY2020 | FY2021 | FY2022 (Provisional) |
|---|---|---|---|
| **Operating income (Rs. crore)** | 38.8 | 35.4 | 46.6 |
| **PAT (Rs. crore)** | 0.4 | 0.3 | 0.5 |
| **OPBDITA/OI (%)** | 5.0% | 7.8% | 7.5% |
| **PAT/OI (%)** | 1% | 1% | 1.1% |
| **Total outside liabilities/Tangible net worth (times)** | 3.2 | 3.9 | 3.9 |
| **Total debt/OPBDIT (times)** | 7.4 | 7.4 | 2.8 |
| **Interest coverage (times)** | 1.6 | 1.3 | 1.4 |

*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 as on Mar 31, 2022 (Rs. crore) | Date & rating in | Date & rating in FY2022 | Date & rating in FY2021 | Date & rating in FY2020 |
| | | | | | September 05, 2022 | Jan 28, 2022 | Oct 29, 2020 | April 4, 2019 |
| 1 | Fund based- Cash credit | Long Term | 4.00 | - | [ICRA]BB- (Stable) | [ICRA]B+(Stable); (ISSUER NOT COOPERATING) | [ICRA]BB- (Stable) | [ICRA]BB- (Stable) |
| 2 | Fund based Bill Discounting | Long Term | 15.00 | - | [ICRA]BB- (Stable) | - | - | - |
| 3 | Term loans | Long Term | 5.45 | 4.80 | [ICRA]BB- (Stable) | - | - | - |
| 4 | Non-fund based BG | Short Term | 13.00 | - | [ICRA]A4 | [ICRA]A4; (ISSUER NOT COOPERATING) | [ICRA]A4 | [ICRA]A4 |
| 5 | Non-fund based LC | Short Term | 5.00 | | [ICRA]A4 | [ICRA]A4; (ISSUER NOT COOPERATING) | [ICRA]A4 | [ICRA]A4 |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Fund-based limits – Cash credit | Simple |
| Fund-based limits – Bill Discounting | Simple |
| Term loans | Simple |
| Non-fund based facilities – BG/LC | 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: [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Cash credit | NA | NA | NA | 4.00 | [ICRA]BB-(Stable) |
| NA | Bill discounting | NA | NA | NA | 15.00 | [ICRA]BB-(Stable) |
| NA | Term Loan | FY2020 | NA | FY2027 | 5.45 | [ICRA]BB-(Stable) |
| NA | Letter of credit | NA | NA | NA | 5.00 | [ICRA]A4 |
| NA | Bank Guarantee | NA | NA | NA | 13.00 | [ICRA]A4 |

***Source:*** *Company*

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

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

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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.

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