September 29, 2023

Shirdi Sai Electricals Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term Non-fund-based facilities	708.65	708.65	[ICRA]BBB-(Stable)/ [ICRA]A3; reaffirmed
Long-term fund-based working capital	615.48	615.48	[ICRA]BBB-(Stable); reaffirmed
Long-term fund - Term loan	50.00	50.00	[ICRA]BBB-(Stable); reaffirmed
Long-term/Short-term unallocated limits	29.87	29.87	[ICRA]BBB-(Stable)/[ICRA]A3; reaffirmed
Total	**1,404.00**	**1,404.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings factors in a healthy revenue growth of Shirdi Sai Electricals Limited (SSEL) in FY2023 and its strong order book of Rs. 12,645 crore as on March 31, 2023 compared with Rs. 7,497.66 crore as on April 25, 2022, leading to strong revenue visibility, going forward. ICRA also draws comfort from SSEL's established presence in the distribution transformer manufacturing segment along with its experience of around two decades as an EPC contractor. The company has strong relationships with its clients, evident from the repeat orders from the discoms. Further, the ratings also factor in SSEL's healthy profit margins, supported by backward-integrated operations and in-house manufacturing of transformer sub-parts.

The ratings, however, are constrained by the company's high receivables position, as inherent in the EPC business due to the long execution period of projects, milestone-based payments and the retention money requirement that is released post the defect liability period. Further, the expected increase in scale and large order inflows are likely to entail higher working capital requirements. Nonetheless, ICRA expects the proposed enhancement of working capital limits to improve the buffer in the working capital limits and the overall liquidity position of SSEL in the near-to-medium term. Also. The ratings remain tempered by the high geographical and customer concentration risks as Andhra Pradesh state power distribution utilities (AP discoms) contribute to over 70% of SSEL's revenue and 95% of the outstanding order book. Given the high exposure to AP discoms, that have modest financial profiles, the timely receipt of the ongoing bills remains a key monitorable for SSEL.

ICRA notes that SSEL had a cash outflow of ~Rs. 137 crore towards its subsidiary company, Indosol Solar, for funding the 4-GW fully-integrated solar module manufacturing facility under the production-linked incentive programme. The transaction structure, funding mix and strategic partner/technical tie-ups are still at a planning stage. ICRA will monitor the development closely, given the large scale of the projects, the significant investment outlay and the company's limited experience in executing solar module manufacturing.

The Stable outlook on SSEL's rating factors in revenue visibility aided by the pending order book position, expectation of regular realisation of bills from its customers and timely enhancement of working capital limits.

Key rating drivers and their description

Credit strengths

Long track record in transformer industry - SSEL is one of the prominent players in the distribution and power transformer manufacturing industry and has emerged as an EPC contractor in the segment over the years. The company's major clients include the state power distribution utilities of Andhra Pradesh, Bihar, Gujarat, Madhya Pradesh, Odisha etc.

Backward-integrated operations provide cost and quality control - SSEL's backward integration into core, conductor, winding and tank fabrication operations aids in a healthy profitability. While several transformer manufacturers outsource the production of these parts, SSEL manufactures about 60-70% of the transformer parts in-house that gives it significant cost-control opportunities and ensures quality check. In FY2023, the company commenced the operations of the relatively high-capacity power transformers at Prayagraj, Uttar Pradesh, which has strengthened its product range and helped the company expand its footprints in the North Indian region. In FY2023, the company's operating margin and net margin stood healthy and improved to 22.8% (18.5% in FY2022) and 13.6% (11.8% in FY2022), respectively, mainly due to benefits of backward integration and increase in scale. ICRA believes that the margin profile of SSEL will continue to be healthy in the medium term.

Robust order book position provides healthy revenue visibility - SSEL had an outstanding order book of Rs. 12,645 crore as on March 31, 2023, translating into 6.2 times of FY2023 revenues, thereby providing healthy revenue visibility, going forward. The company's fresh order inflows remained healthy with orders ~Rs. 9,000 crore added during FY2023. The key pending orders includes ~Rs. 5,845-crore orders for smart meter installation and ~Rs. 4,822-crore orders under the RDSS scheme. SSEL's operating income (OI) improved by 123% to Rs. 2,051 crore in FY2023 from Rs. 1,357.4 crore in FY2022. In the current fiscal, the company has booked a revenue of ~Rs. 500 crore in 3M FY2024. Going forward, the timely commencement and execution of key orders is critical to sustain the revenue growth.

Credit challenges

Moderate working capital intensity - SSEL's working capital intensity remains moderate, reflected in NWC/OI of 18% in FY2023, because of the high receivables position, as inherent in the EPC business due to the long execution period of projects, milestone-based payments and the retention money requirement that is released post the defect liability period. Going forward, a timely receivable recovery would remain crucial from the liquidity point of view. Besides this, majority of the company's revenues are concentrated with the Andhra Pradesh discoms which have shown a good and timely payment track record in the past. Given the expected increase in the scale of operations, the working capital requirements are likely to increase and its ability to efficiently manage its cash conversion cycle along with timely funding tie-ups will remain important from a credit perspective.

High customer and geographical concentration risks - The customer and geographical concentration risks remain high as the Andhra Pradesh discoms contribute to ~70% of the company's revenue and outstanding order book. ICRA, however, notes that the projects undertaken by SSEL are funded by central/multilateral agencies. The management has indicated that the concentration is majorly attributable to the company bidding for projects only in states where funding tie-up is available from central/multilateral agencies. Moreover, the company is bidding for new projects in new geographies which is expected to mitigate the geographic concentration risk to some extent.

High competition - Competition is intense in the highly fragmented transformer industry, which in turn translates into pricing pressure to a certain extent. The company, however, benefits from a backward-integrated operation which results in cost-control and ensures the quality of the products.

Investments extended to Group companies other than entities consolidated – Significant cash outflows of around ~Rs. 137 crore have been made in subsidiary company, Indosol Solar, as of March 2023 to develop the 4-GW solar module manufacturing plant. The project has a large capex plan in the first phase. The transaction structure, funding mix and strategic partner/technical tie-ups are still at a planning stage. ICRA will monitor the development closely, given the large scale of the projects, the significant investment outlay and the company's limited experience in executing solar module manufacturing.

Liquidity position: Stretched

The company's liquidity position remains stretched on account of the limited cushion available in working capital limits, delay in payment realisation from its key client in the recent past and LC maturities in the near term (Rs. 60-65 crore monthly). The average utilisation has remained high at 74% during the last 12-month period ended June 2023. SSEL has proposed an enhancement of the working capital limits by Rs. 800 crore for funding the incremental working capital requirements to execute the orders in hand which is expected to support the liquidity position. Going forward, timely enhancement of the limits, the payment track record from the discoms for key projects and investments in Indosol would remain the key monitorable.

Rating sensitivities

Positive Factor: The ratings could be upgraded in case of a sustained improvement in earnings with diversification of the customer base along with a track record of timely payments from the discoms and a significant improvement in the liquidity position on a sustained basis.

Negative Factor: The ratings could witness a downward revision in case of delays in the receipt of payments from discoms, or if there are significant delays in securing additional working capital limits. A significant deterioration in the scale of operations or profit margins, and/or significant cash outflows to subsidiary company, leading to a deterioration of the liquidity position, could also weigh on the ratings. ICRA may also downgrade the ratings if a higher-than-anticipated debt-funded capex adversely impacts its key credit metrics and liquidity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of SSEL and its subsidiary, Indotech Transformers Limited and Indosol Solar Pvt Ltd

About the company

Shirdi Sai Electricals Limited (SSEL), 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. In FY2023, the company began manufacturing power transformers at Prayagraj in UP.

The company designs and manufactures power and distribution transformers to cater to the needs of electricity utilities as well as private enterprises within India and abroad. SSEL also provides solutions for power transmission and distribution systems through its turnkey projects division.

Key financial indicators (audited)

SSEL	Standalone		Consolidated	
	FY2022	FY2023	FY2022	FY2023
Operating income	1335.4	2051.8	1602.7	2419.6
PAT	153.53	278.76	163.8	300.9
OPBDIT/OI	18.5%	22.8%	16.9%	20.9%
PAT/OI	11.5%	13.6%	10.2%	12.4%
Total outside liabilities/Tangible net worth (times)	0.8	0.7	0.7	0.7
Total debt/OPBDIT (times)	0.3	0.5	0.4	0.5
Interest coverage (times)	6.0	7.9	5.6	7.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years							
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022			Date & rating in FY2021	
					Sep 29, 2023	Apr 24, 2023	Jun 29, 2022	Jun 03, 2022	Feb 8, 2022	Jul 23, 2021	Jun 17, 2021	Feb 08, 2021	Jul 28, 2020
1	Non-fund-based facilities	Long-term/ Short-term	708.65	-	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BB+ (positive)/ [ICRA]A4+	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]B+ (Stable)/ [ICRA]A4	[ICRA]C+ (Stable)/ [ICRA]A4
2	Fund-based working capital	Long-term	615.48	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable)	[ICRA]C+ (Stable)
3	Fund - Term loan	Long-term	50.00	28.69	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-	-	-	-
4	Unallocated limits	Long-term/ Short-term	29.87	-	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BB+ (positive)/ [ICRA]A4+	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB (Stable)/ [ICRA]A4	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term non-fund-based facilities	Very Simple
Long-term fund-based working capital	Simple
Long-term fund - Term loan	Simple
Long-term/Short-term unallocated limits	NA

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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non fund based	NA	NA	NA	708.65	[ICRA]BBB- (Stable)/ [ICRA]A3
NA	Cash credit	NA	NA	NA	132.00	[ICRA]BBB-(Stable)
NA	Fund based	FY2023	NA	FY2025	483.48	[ICRA]BBB-(Stable)
NA	Term loan	March 2022	NA	FY2027	50.00	[ICRA]BBB-(Stable)
NA	Unallocated	NA	NA	NA	29.87	[ICRA]BBB-(Stable)/ [ICRA]A3

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Shirdi Sai Electricals Limited	100.00% (rated entity)	Full Consolidation
Indotech Transformers Limited	70.01%	Full Consolidation
Indosol Solar Private Limited	58%	Full Consolidation

Source: Company

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