

March 04, 2024

Supreme Power Equipment Limited: Ratings upgraded and removed from ISSUER NON 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 facility – Cash credit	4.00	4.00	[ICRA]BB+(Stable); upgraded from [ICRA]B+ (Stable); ISSUER NOT COOPERATING; removed from Issuer Not-Cooperating Category
Long term – Fund-based facility – Bill discounting	15.00	15.00	[ICRA]BB+(Stable); upgraded from [ICRA]B+(Stable); ISSUER NOT COOPERATING; removed from Issuer Not-Cooperating Category
Long term – Fund based facility – Term Loan	5.45	2.76	[ICRA]BB+(Stable); upgraded from [ICRA]B+(Stable); ISSUER NOT COOPERATING; removed from Issuer Not-Cooperating Category
Short term - Non-fund-based facility – BG/LC	18.00	18.00	[ICRA]A4+; upgraded from [ICRA]A4 ISSUER NOT COOPERATING and removed from Issuer Not-Cooperating Category
Long term/ Short term - Unallocated	0.00	30.69	[ICRA]BB+(Stable)/[ICRA]A4+; upgraded from [ICRA]B+(Stable) ISSUER NOT COOPERATING / [ICRA]A4 ISSUER NOT COOPERATING and removed from Issuer Not-Cooperating Category and ratings assigned for enhanced amount
Total	42.45	70.45	

*Instrument details are provided in Annexure-I

Rationale

ICRA has upgraded the ratings assigned to Supreme Power Equipment Limited (SPEL) and removed it from the Issuer Not Cooperating (INC) category.

The ratings upgrade factors in SPEL's co-operation in concluding the rating exercise, its improved financial risk profile post the initial public offering (IPO) in December 2023 and the increased scale and improved margins in the last two years. SPEL raised ~Rs. 47 crore through an IPO, which improved its net worth and reduced the short-term debt, thereby strengthening the capital structure and coverage metrics. The revenues witnessed significant growth in FY2023 and the growth is expected to continue in FY2024. Further, the outstanding order book remains healthy at ~Rs. 62 crore as of December 2023, providing near term revenue visibility. The operating margins improved to ~18% in FY2023 and ~20% in 9M FY2024 from 7.4% in FY2022 owing to the company's strengthened financial position and change in the product and sales mix.

The ratings also draw comfort from the operational track record of SPEL in the transformer manufacturing business with established relationship with primary customers, Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) and Tamil Nadu Transmission Corporation Limited (TANTRANSCO). ICRA also notes that SPEL is setting up a new 6,500-MVA plant in Kannur, Tamil Nadu, to enhance the existing capacity and the capex is expected to be funded from IPO proceeds and internal accruals.

The ratings are, however, constrained by the company's moderate scale of operations over the years. The ratings also factor in the high customer concentration risk as around ~60% of the revenue in FY2023 was from the top two clients – Tamil Nadu Electricity Board (TNEB) and TANTRANSCO. Moreover, the industry is highly fragmented, 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 a 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. ICRA expects the company's sales to grow gradually, while the margins and debt coverage indicators are expected to remain healthy.

Key rating drivers and their description

Credit strengths

Established track record of operations - Supreme Power Equipment Private Limited (SPEPL) was established in 2005 and was listed on the NSE as SPEL in December 2023. The entity has been manufacturing transformers, mainly distribution and power transformers. The promoters of SPEL, Mr. Vee Rajmohan and Mr. K. V. Pradeep, have been in this business since 2000 and, hence, they have more than two decades of experience in the transformer industry and provide direct technical support in the execution of projects.

Improved financial risk profile with healthy outstanding order book – SPEL's financial risk profile has improved after the initial public offering (IPO) in December 2023 along with the increased scale and improved margins in the last two years. SPEL raised ~Rs. 47 crore through the IPO, which improved its net worth and reduced the short-term debt, thereby strengthening the capital structure and coverage metrics. The revenues witnessed significant growth in FY2023 and the growth is expected to continue in FY2024. Further, the outstanding order book remains healthy at ~Rs. 62 crore as of December 2023, providing near-term revenue visibility. The operating margins improved to ~18% in FY2023 and ~20% in 9M FY2024 from 7.4% in FY2022 owing to its strengthened financial position and change in the product and sales mix. The margins are expected to remain healthy, going forward.

Credit challenges

Moderate scale of operations - The company recorded a significant growth in revenues in the last two years. Nonetheless, the scale of operations remains moderate, thereby limiting the operational and financial flexibility. Further, intense competition in the industry constrains SPEPL's ability to bargain with its suppliers and customers to some extent.

High customer concentration risk and working capital-intensive nature of business – TNEB, TANGEDCO and TANTRANSCO are the major customers of SPEL, contributing to about 60% of its revenues in FY2023, down from 87% in FY2022; the remaining 40% orders are from the private sector. High customer concentration risk accentuates the impact of any order volatility on its revenue growth and accruals. The working capital intensity is high with NWC/OI of 29% in FY2023 as slow payment realisation from the state discoms led to higher debtor days. However, its liquidity is supported by the availability of the bill discounting facility (bills up to 240 days maturity can be discounted).

Environmental and Social Risks

Environmental concerns: The company is exposed to the risk of tightening environmental regulations related to emission and waste generated from its manufacturing process. This apart, an efficient waste segregation through a robust waste management system is required to meet the regulatory requirements. Any disruption in its environmental-related policies can attract significant fines or punitive actions from the regulators.

Social concerns: As a labour-intensive operation, the company is exposed to risks related to disruption in human resource management, workplace safety and overall employability. The company is also susceptible to the risk of a shortage of skilled manpower, which can have an impact on its operations. However, the company has implemented measures to address

employee welfare, including a social accountability policy. As a result, the company till now has not experienced any protests from workers regarding wage hikes or notable shortage of skilled manpower.

Liquidity position: Adequate

The company's liquidity position is adequate with expected healthy annual cash accruals for FY2024 along with ~Rs. 47-crore cash inflow through IPO proceeds. The repayment obligations are moderate over the next two years, which would be comfortably met through the cash flows. Further, the company has capex plans over the next two years to set up a new facility. The capex is to be funded from IPO proceeds and internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a healthy and sustained improvement in its scale while maintaining its profitability and liquidity position.

Negative factors – Pressure on the ratings could arise if there is a significant decline in revenues 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 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 consolidated financial statements.

About the company

Supreme Power Equipment Limited (SPEL), incorporated in 2005, manufactures transformers, mainly for the distribution and power sectors. Its customer profile includes TANGEDCO, Vestas and Gamesa, and its manufacturing facility is near Chennai (Tamil Nadu). The company is promoted by Mr. Vee Rajmohan and Mr. K V Pradeep, who have been in the transformer manufacturing business since 2000.

Key financial indicators

	FY2022	FY2023	9MFY2024*
Operating income	46.6	99.8	76.3
PAT	0.5	11.1	9.6
OPBDIT/OI	7.4%	18.2%	20.2%
PAT/OI	1.1%	11.1%	12.5%
Total outside liabilities/Tangible net worth (times)	3.6	2.2	-
Total debt/OPBDIT (times)	2.8	1.1	-
Interest coverage (times)	1.4	6.8	7.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Provisional

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 (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Jan 31, 2024 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 04, 2024	Dec 8, 2023	Sept 5, 2022	Jan 28, 2022	Oct 29, 2020
1	Fund based – Cash credit	Long-Term	4.00	-	[ICRA]BB+ (Stable)	[ICRA]B+(Stable) ; ISSUER NOT COOPERATING	[ICRA]BB- (Stable)	[ICRA]B+(Stable); ISSUER NOT COOPERATING	[ICRA]BB- (Stable)
2	Fund-based bill discounting	Long-Term	15.00	-	[ICRA]BB+ (Stable)	[ICRA]B+(Stable) ; ISSUER NOT COOPERATING	[ICRA]BB- (Stable)	-	-
3	Term loan	Long-Term	2.76	2.76	[ICRA]BB+ (Stable)	[ICRA]B+(Stable) ; ISSUER NOT COOPERATING	[ICRA]BB- (Stable)	-	-
4	Non-fund based – Bank guarantee	Short term	5.00	-	[ICRA]A4+	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4
5	Non-fund based – LC	Short term	13.00	-	[ICRA]A4+	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4
6	Unallocated	Long Term/ Short term	30.69	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based facility – Cash credit	Simple
Long term – Fund-based facility- Bill discounting	Simple
Long term – Fund-based facility – Term loan	Simple
Short term - Non-fund based facility – BG/LC	Very Simple
Short term/Long term - Unallocated	Not applicable

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	Long term - Fund based – Cash credit	NA	NA	NA	4.00	[ICRA]BB+ (Stable)
NA	Long term – Fund-based- Bill discounting	NA	NA	NA	15.00	[ICRA]BB+ (Stable)
NA	Long term – Fund-based- Term loan	FY2020	NA	FY2027	2.76	[ICRA]BB+ (Stable)
NA	Non-fund based limits – Bank guarantee	NA	NA	NA	5.00	[ICRA]A4+
NA	Non-fund based limits - LC	NA	NA	NA	13.00	[ICRA]A4+
NA	Unallocated	NA	NA	NA	30.69	[ICRA]BB+(Stable)/ [ICRA]A4+

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	SPEL Ownership	Consolidation Approach
Danya Electric Company	90.00%	Full Consolidation

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About ICRA Limited:

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