March 28, 2024

Marine Electricals (I) Limited: Ratings reaffirmed and assigned for the enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund-based Term loan	10.12	0.00	-
Long-Term Fund-based Cash Credit	41.00	50.00	[ICRA]BBB (Stable); reaffirmed/assigned for enhanced amount
Short-Term - EPC/EBD/PCFC (Sublimit of CC)	(5.00)	(5.00)	[ICRA]A3+; reaffirmed
Short-Term - Non-fund-based Bank Guarantee	118.88	146.15	[ICRA]A3+; reaffirmed/assigned for enhanced amount
Short-Term - Non-fund-based Letter of Credit (Sublimit of BG)	(60.00)	(80.00)	[ICRA]A3+; reaffirmed/assigned for enhanced amount
Long-Term/Short-Term – Unallocated Limited	-	3.85	[ICRA]BBB (Stable)/[ICRA]A3+; assigned
Total	**170.00**	**200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in Marine Electricals (I) Limited's (MEIL) healthy order book position of ~Rs. 540 crore as on December 31, 2023, which provides adequate revenue visibility in the near term, and MEIL's comfortable capital structure, given its strong net worth position and low debt levels due to reliance on non-fund based facilities. The ratings continue to draw comfort from MEIL's established position and track record of providing integrated electrical solutions to the marine and industry sectors. Besides, its reputed customer base in the Government and private sectors reduces the counterparty risk to an extent. In 9M FY2024, the company reported a healthy YoY growth of 28% with Rs. 385 crore, which along with a healthy order book position, are expected to translate into revenues of close to Rs. 500 crore in FY2024. This, along with stable profit margins, lend adequate support to debt coverage indicators with an interest cover of 4.4 times in FY2024.

The ratings, however, remain constrained by MEIL's working capital intensive nature of operations, as evident from the net working capital-to-operating income (NWC/OI) ratio of 35% in H1 FY2024 due to its elongated receivable cycle. While the order book position has improved, timely execution of the same remains critical as any major delay could impact the revenues and profitability, given the largely fixed price nature of the contracts in the marine segment. Besides, the competitive bidding process in the marine segment and stiff competition in the industry segment limit the company's pricing flexibility. However, the risks associated with the tender bidding business are partly offset by MEIL's status as a nominated vendor for its key customers in the marine sector and its sound technical capabilities, which facilitate winning of new projects based on T1 (technical evaluation) criterion. MEIL's profit margins also remain sensitive to currency fluctuations arising from exports, though a natural hedge via imports and EEFC (Exchange Earners' Foreign Currency) Account mitigates the risk to a large extent.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from its established position in the industry as well as its healthy order book position.

Key rating drivers and their description

Credit strengths

Healthy order book position – The company's order book position improved to ~Rs. 540 crore as on December 31, 2023 from ~Rs. 500 crore as on December 27, 2022, aided by higher order inflows from the marine and industry segments. While orders in the marine segment are primarily driven by the government's focus on indigenous procurement, modernisation of Indian Navy and capacity expansion by shipyards, orders in the industry segment are driven by the company's increasing customer base as well as the rising need to improve electrical infrastructure. The orders in the industry segment are completed within six months and those in the marine segment require longer execution time of two to three years. However, any delay in execution of projects from the customers' end could delay revenue booking for the company, thereby impacting its profitability, and hence remains a key monitorable.

Long experience of promoters; technical tie-ups with reputed companies – MEIL is promoted and managed by Mr. Venkatesh Uchil and Mr. Vinay Uchil, who have an experience of around two decades in this business. Besides, MEIL has technical tie-ups with various companies across the world for advanced systems required in the marine and industrial sectors, which improve the growth prospects as well as operational diversity of the company.

Reputed and diversified client base limits counterparty risk – MEIL has reputed national and international clients in the marine industry including the Indian Navy, the Indian Cost Guard, Goa Shipyard Limited, Cochin Shipyard, Mazagon Dock Shipbuilders Limited, Garden Reach Shipbuilders and Engineers Limited, among others. Besides, MEIL has a strong customer base in the industrial sector, which includes reputed corporates across various sectors like data centres, banking, pharmaceutical companies, information technology, automobile, oil and gas, among others. Its reputed and diversified clientele reduces the counterparty risk to an extent.

Comfortable capital structure; satisfactory coverage indicators – The company's capital structure remains comfortable, as evident from a gearing of 0.3 times as on September 30, 2023, given its healthy net worth position as well as low debt levels due to reliance on non-fund based facilities. Moreover, the company raised Rs. 29.25 crore in FY2023-FY2024 primarily to fund the capital expenditure (capex) requirement.

Given the healthy order inflows, MEIL reported an 18% YoY growth with an all-time high revenue of Rs. 443 crore in FY2023. The credit metrics remained comfortable due to healthy revenue and profitability levels, as reflected in total debt-to-operating profit ratio of 1.7 times as on March 31, 2023, net cash accruals vis-à-vis the total debt ratio of 39% and interest cover of 3.9 times in FY2023. In 9M FY2024, the company reported a healthy YoY growth of 28% with Rs. 385 crore, the same is expected to translate into overall revenue of close to Rs. 500 crore in FY2024 given the healthy order book position. This, along with stable profit margins, lend adequate support to debt coverage indicators with an interest cover of 4.4 times in FY2024.

Credit challenges

High working capital intensity of operations – The company's operations are working capital intensive in nature, as evident from NWC/OI ratio of 35% in H1 FY2024 due to its elongated receivables cycle. The receivables as on September 30, 2023 include pending receivables of the solar project worth Rs. 10.0 crore, which are expected to be recovered in Q1 FY2025 as performance testing phase has been completed. Apart from these, the overdue receivables outstanding for more than 180 days stood at Rs. 23.1 crore (reflecting 13% of the receivables at the standalone level as on September 30, 2023). Going forward, the company's ability to manage its working capital efficiently and thereby liquidity will remain critical.

Susceptible to foreign currency and raw material price fluctuations – Exports contributed approximately 4% to MEIL's revenues in H1 FY2024 and 19-20% of its raw materials was imported. While a natural hedge provides some comfort, the company's operations remain exposed to the currency risk to an extent. Besides, raw materials account for 70-80% of the company's total cost. While the industry orders are mainly executed within three to six months, marine orders involve a longer execution time of two to three years. Thus, any significant fluctuation in raw material prices can adversely impact the company's profit margin. Nevertheless, ICRA notes that the company enters into back-to-back arrangement with its suppliers, which largely mitigates the prick risk. Besides, competition from established players in the industry and weak bargaining power against its reputed clientele limit the company's ability to entirely pass on the impact of raw material price and foreign currency fluctuations to the customers.

Bidding process in marine industry and stiff competition in industry segment limit pricing flexibility – The industry segment remains intensely competitive due to the presence of many players. Besides, the company faces stiff competition from players like Larsen & Toubro (L&T), General Electric (GE) and Siemens for acquiring new contracts. The bidding process followed in the marine industry, coupled with intense competition in both the segments, limits MEIL's pricing flexibility. However, the company's status as a nominated vendor of its key customers in the marine segment and its sound technical capabilities, which facilitate winning new projects based on the T1 (technical evaluation) criteria in the industry segment, mitigate the risk to some extent.

Environmental and Social Risk

Environmental considerations: MEIL's exposure to environmental risks are mainly related to carbon emissions and waste management. MEIL mostly uses environment friendly raw materials in its manufacturing process to minimise the impact on the environment. The company has an effluent treatment plant in place to recycle water and to ensure that waste is not discharged in the environment. The company has a policy for recycling products so that most of the waste generated is reused.

Social considerations: On the social front, MEIL's success depends on its competent workforce with talent being the company's primary source of competitive edge. Failure to hire, motivate and retain talent pool with necessary competencies may impact the organisation's ability to maintain and expand its business operations, and consequently its profitability. As per the disclosures, the top management of MEIL devotes considerable attention in ensuring that employees are given opportunities for professional development.

Liquidity position: Adequate

The company's liquidity position is adequate, supported by the cushion available in the form of unutilised fund-based working capital limits. The company's average utilistion of the sanctioned fund-based limits stood at around 60% during the last 12 months ended on December 31, 2023 (increased to Rs. 53 crore from Rs. 41 crore in September 2023), reflecting average unutilised limits of ~Rs. 21 crore (with adequate drawing power). The cash generation in the business is likely to be sufficient to service the debt repayment obligations of Rs. 3.9 crore in FY2025 and Rs. 3.8 crore in FY2026. Further, the company raised Rs. 29.25 crore through issue of warrants to meet the capex funding requirements of Rs. 15 crore in FY2024 and FY2025 each. The unencumbered cash and bank balances stood at Rs. 6.4 crore as on September 30, 2023 at the consolidated level.

Rating sensitivities

Positive factors – The ratings may be upgraded if there is a considerable ramp-up in the scale of operations and profitability, leading to an improvement in the financial and liquidity profiles. Specific credit metric that could lead to ratings upgrade includes ROCE remaining above 15% on a sustained basis.

Negative factors – Pressure on the ratings could arise if there is a decline in the company's revenues and/or profitability, resulting in a deterioration in the financial profile. An increase in the working capital intensity, leading to a deterioration in the liquidity profile, could also trigger ratings downgrade. Specific credit metric that could lead to ratings downgrade includes the interest cover remaining below 3.5 times on a sustained basis.

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 considered the consolidated financials of MEIL. As on March 31, 2023, the company had five subsidiaries, one step-down subsidiary and one associate, which are enlisted in Annexure-2.

About the company

MEIL primarily provides customised electrical solutions to the marine and non-marine sectors. Its head office is in Mumbai, with manufacturing facilities in Mumbai and Goa. The company has four subsidiaries, one step-down subsidiary, one associate and one associate as on March 31, 2023. These include MEIL Power Systems FZC (a 90% stake), Eltech Engineers Madras Private Limited (a 70% stake), Narhari Engineering Works (an 99% stake), Evigo Charging Consultants Private Limited (a 98.88% stake), STI Company SRL (a 67.5% stake; step-down subsidiary). In FY2023, the company acquired a 75% stake in Xanatos Marine Limited. Further, in FY2024, the company acquired 49% stake in Marks Marine Radio Private Limited. Mr. Venkatesh Uchil and Mr. Vinay Uchil are the promoters/key directors, who manage the overall business operations.

Key financial indicators (audited)

Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	376.6	442.9	238.4
PAT	13.3	16.8	8.3
OPBDIT/OI	8.6%	8.7%	8.3%
PAT/OI	3.5%	3.8%	3.5%
Total outside liabilities/Tangible net worth (times)	1.1	1.2	1.3
Total debt/OPBDIT (times)	1.1	1.7	1.8
Interest coverage (times)	4.4	3.9	3.8

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Standalone	FY2022	FY2023	H1 FY2024*
Operating income	323.2	391.4	207.5
PAT	11.4	17.5	9.7
OPBDIT/OI	8.5%	9.0%	8.5%
PAT/OI	3.5%	4.5%	4.7%
Total outside liabilities/Tangible net worth (times)	0.9	1.1	1.2
Total debt/OPBDIT (times)	1.1	1.6	1.7
Interest coverage (times)	4.2	4.1	3.9

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; 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 of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Mar 28, 2024	Jan 05, 2023	Nov 28, 2022	Jan 24, 2022	Jan 07, 2021
1	Fund-based Term loan	Long term	0.00	--	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2	Fund-based Cash Credit	Long term	50.00	--	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
3	Fund-Based EPC/EBD/PCFC (Sublimit of CC)	Short term	(5.00)	--	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3
4	Non-fund-based Bank Guarantee	Short term	146.15	--	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3
5	Non-fund-based Letter of Credit	Short term	(80.00)	--	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3
6	Non-fund-based Bank Guarantee	Short term	-	--	-	-	[ICRA]A3+	[ICRA]A3+	-
7	Unallocated Limits	Short term	-	--	-	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3
8	Unallocated Limited	Long-Term/Short-Term	3.85	--	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-Term Fund-based Cash Credit	Simple
Short-Term - EPC/EBD/PCFC (Sublimit of CC)	Very Simple
Short-Term - Non-fund-based Bank Guarantee	Very Simple
Short-Term - Non-fund-based Letter of Credit (Sublimit of BG)	Very Simple
Long-Term/Short-Term – Unallocated Limited	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	-	-	-	50.00	[ICRA]BBB (Stable)
NA	Short-Term - EPC/EBD/PCFC (Sublimit of CC)	-	-	-	(5.00)	[ICRA]A3+
NA	Short-Term - Non-fund-based Bank Guarantee	-	-	-	146.15	[ICRA]A3+
NA	Short-Term - Non-fund-based Letter of Credit (Sublimit of BG)	-	-	-	(80.00)	[ICRA]A3+
NA	Long-Term/Short-Term – Unallocated Limited	-	-	-	3.85	[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	Consolidation Approach
Marine Electricals (I) Limited	Full Consolidation
MEL Power Systems FZC	Full Consolidation
STL SRL	Full Consolidation
Eltech Engineers Madras Private Limited	Full Consolidation
Narhari Engineering Works	Full Consolidation
Evigo Charge Private Limited	Full Consolidation
Xanatos Marine Limited	Full Consolidation
Marks Marine Radio Private Limited	Equity Method

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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.

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