

October 09, 2024

Supreme Power Equipment Limited: Ratings reaffirmed; outlook revised to Positive

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+ (Positive); reaffirmed and outlook revised to Positive from Stable
Long term – Fund-based facility - Bill discounting	15.00	20.00	[ICRA]BB+ (Positive); reaffirmed and outlook revised to Positive from Stable
Long term – Fund-based facility – Term Loan	2.76	1.91	[ICRA]BB+ (Positive); reaffirmed and outlook revised to Positive from Stable
Short term - Non-fund-based facility – BG/LC	18.00	18.00	[ICRA]A4+; reaffirmed
Long term/Short term - Unallocated	30.69	26.54	[ICRA]BB+(Positive)/[ICRA]A4+; reaffirmed and outlook revised to Positive from Stable
Total	70.45	70.45	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook to positive factors in the continued growth in Supreme Power Equipment Limited's (SPEL) revenues and the likely sustenance of the trend in FY2025 owing to a healthy outstanding order book and its improved financial risk profile. Further, the customer diversification is improving with the top 3 customers contributing to 37% of the revenues in FY2024 (69% in FY2023).

The revenues witnessed significant growth during FY2022-FY2024. The operating margins improved to ~18% in FY2023 and ~20% in 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 prominent customers such as Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO), Tamil Nadu Transmission Corporation Limited (TANTRANSCO) and other private sector players.

The entity is also expanding its presence in other states such as Karnataka, Kerala, Punjab, Haryana etc. ICRA also notes that SPEL is setting up a 6,500-MVA plant in Kannur, Tamil Nadu, to enhance the existing capacity and the capex is expected to be funded from IPO proceeds, internal accruals and long-term loan.

The ratings are, however, constrained by the company's moderate scale of operations over the years. 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).

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. TANGEDCO and TANTRANSCO are the prominent customers of SPEL, contributing to about 33% of its revenues in FY2024, down from 60% in FY2023; the remaining 67% is from the private sector, up from ~40% in FY2023.

Healthy financial risk profile - 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 grew ~14% in FY2024 and the growth is expected to continue in FY2025. Further, the outstanding order book remains healthy as of September 2024, providing near-term revenue visibility. The operating margins improved to ~18% in FY2023 and ~20% in 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 has recorded a significant growth in its 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 SPEL's ability to bargain with its suppliers and customers to some extent.

Working capital-intensive nature of business – The business is working capital intensive with high NWC/OI of 51% in FY2024 owing to the high debtors due to the slow payment realisation from the state discoms. However, its liquidity is supported by the availability of a 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 shortage of skilled manpower, which can impact 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 a notable shortage of skilled manpower.

Liquidity position: Adequate

The company's liquidity position is adequate with 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, internal accruals and term loan.

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 the revenues or margins, weakening the coverage indicators. Any significant stretch in the working capital cycle or a large debt-funded capex resulting in liquidity pressure may also trigger 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

	FY2023	FY2024	Q1 FY2025*
Operating income	99.8	113.5	27.5
PAT	11.1	14.2	3.5
OPBDIT/OI	18.2%	20.4%	21.1%
PAT/OI	11.1%	12.5%	12.7%
Total outside liabilities/Tangible net worth (times)	2.2	0.6	-
Total debt/OPBDIT (times)	1.1	0.4	-
Interest coverage (times)	6.8	7.2	6.1

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

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 (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Oct 09, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
1 Fund based – Cash credit	Long-Term	4.00	[ICRA]BB+ (Positive)	Mar 04, 2024	[ICRA]BB+ (Stable)	Sep 05, 2022	[ICRA]BB- (Stable)	Jan 28, 2022	[ICRA]B+ (Stable); ISSUER NOT COOPERATING
				Dec 08, 2023	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	-	-	-	-
2 Fund-based bill discounting	Long-Term	20.00	[ICRA]BB+ (Positive)	Mar 04, 2024	[ICRA]BB+ (Stable)	Sep 05, 2022	[ICRA]BB- (Stable)	-	-
				Dec 08, 2023	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	-	-	-	-
3 Term loan	Long-Term	1.91	[ICRA]BB+ (Positive)	Mar 04, 2024	[ICRA]BB+ (Stable)	Sep 05, 2022	[ICRA]BB- (Stable)	-	-
				Dec 08, 2023	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	-	-	-	-
4 Non-fund based – Bank guarantee	Short term	13.00	[ICRA]A4+	Mar 04, 2024	[ICRA]A4+	Sep 05, 2022	[ICRA]A4	Jan 28, 2022	[ICRA]A4; ISSUER NOT COOPERATING
				Dec 08, 2023	[ICRA]A4; ISSUER NOT COOPERATING	-	-	-	-
5 Non-fund based – LC	Short term	5.00	[ICRA]A4+	Mar 04, 2024	[ICRA]A4+	Sep 05, 2022	[ICRA]A4	Jan 28, 2022	[ICRA]A4; ISSUER NOT COOPERATING
				Dec 08, 2023	[ICRA]A4; ISSUER NOT COOPERATING	-	-	-	-
6 Unallocated	Long Term/ Short term	26.54	[ICRA]BB+ (Positive)/ [ICRA]A4+	Mar 04, 2024	[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+(Positive)
NA	Long term – Fund-based - Bill discounting	NA	NA	NA	20.00	[ICRA]BB+(Positive)
NA	Long term – Fund-based - Term loan (Canara Bank)	Jan 2022	NA	Jan 2029	1.63	[ICRA]BB+(Positive)
NA	Long term – Fund-based- Term loan (IndusInd Bank)	Feb 2022	NA	Feb 2027	0.28	[ICRA]BB+(Positive)
NA	Non-fund based limits – Bank guarantee	NA	NA	NA	13.00	[ICRA]A4+
NA	Non-fund based limits - LC	NA	NA	NA	5.00	[ICRA]A4+
NA	Unallocated	NA	NA	NA	26.54	[ICRA]BB+(Positive)/ [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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