

February 25, 2025

## Supreme Power Equipment Limited: Ratings upgraded to [ICRA]BBB- (Stable)/[ICRA]A3; outlook revised to Stable

### Summary of rating action

| Instrument*  | Previous rated amount<br>(Rs. crore) | Current rated amount<br>(Rs. crore) | Rating action  |
|--|--------------------------------------|-------------------------------------|--|
| Long term – Fund-based facility – Cash credit      | 4.00                                 | 4.00                                | [ICRA]BBB- (Stable); upgraded from [ICRA]BB+ and outlook revised to Stable from Positive                       |
| Long term – Fund-based facility - Bill discounting | 20.00                                | 20.00                               | [ICRA]BBB- (Stable); upgraded from [ICRA]BB+ and outlook revised to Stable from Positive                       |
| Long term – Fund-based facility – Term loan        | 1.91                                 | 1.91                                | [ICRA]BBB- (Stable); upgraded from [ICRA]BB+ and outlook revised to Stable from Positive                       |
| Short term - Non-fund-based facility – BG/LC       | 18.00                                | 18.00                               | [ICRA]A3; upgraded from [ICRA]A4+  |
| Long term/Short term - Unallocated                 | 26.54                                | 26.54                               | [ICRA]BBB- (Stable)/ [ICRA]A3; upgraded from [ICRA]BB+ / [ICRA]A4+ and outlook revised to Stable from Positive |
| <b>Total</b>                                       | <b>70.45</b>                         | <b>70.45</b>                        |  |

\*Instrument details are provided in Annexure I

### Rationale

The rating upgrade factors in the continued growth in Supreme Power Equipment Limited's (SPEL) revenues and the likely sustenance of the trend in FY2025 and FY2026 owing to a healthy outstanding order book supported by favourable demand prospects. Further, the financial risk profile has improved over the years. The revenues witnessed significant growth and the operating margins remained healthy in FY2024 and 9M FY2025, improving from FY2022, owing to the company's strengthened financial position and change in the product and sales mix. As of 9M FY2025, SPEL's consolidated revenue stood at ~Rs. 87 crore with an outstanding orderbook in hand of ~Rs. 90 crore. The customer diversification is improving with the top 3 customers contributing to 37% of the revenues in FY2024 against 69% in FY2023.

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 at Kannur, Tamil Nadu, to enhance its 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).

The Stable outlook on the rating reflects ICRA's expectation that SPEL is likely to sustain its operating metrics, supported by a healthy outstanding order book. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, which

will help expand the product portfolio, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

## 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. As of 9M FY2025, the company has reported consolidated revenues of ~Rs. 87 crore, witnessing ~14% YoY growth. Further, the outstanding order book was at ~Rs. 90 crore as on December 31, 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. As of 9M FY2025, the margins were at around ~17% and are expected to remain healthy, going forward.

### Credit challenges

**Moderate scale of operations** - The company has recorded 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 a high NWC/OI of 51% in FY2024 owing to the high debtors because of the slow payment realisation from the state discoms. However, as of 9M FY2025, its debtors have come down and 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 expected cash flows from operations in FY2025. The average fund-based working capital utilisation remained low at 35% in the last 12 months ended January 2025. 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 FY2025 and FY2026 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 a healthy profitability and liquidity position as well as comfortable credit metrics.

**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 a large debt-funded capex resulting in liquidity pressure may also warrant a downgrade. A specific credit metric for downgrade would be a DSCR of less than 1.4 times on a sustained basis.

## Analytical approach

| Analytical approach             | Comments   |
|---------------------------------|--|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a>                      |
| 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 (audited)

|  | FY2023 | FY2024 | 9M FY2025* |
|--|--------|--------|------------|
| Operating income                                     | 99.8   | 113.5  | 87.2       |
| PAT  | 11.1   | 14.3   | 10.6       |
| OPBDIT/OI  | 18.2%  | 20.5%  | 16.8%      |
| PAT/OI   | 11.1%  | 12.6%  | 12.1%      |
| Total outside liabilities/Tangible net worth (times) | 2.2    | 0.6    | -          |
| Total debt/OPBDIT (times)                            | 1.1    | 0.4    | -          |
| Interest coverage (times)                            | 6.8    | 7.3    | 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

| Current (FY2025)                       |                       |                          |                               | Chronology of rating history for the past 3 years |                                 |              |                               |              |   |              |   |
|--|-----------------------|--------------------------|-------------------------------|---|---------------------------------|--------------|-------------------------------|--------------|---|--------------|---|
| Instrument                             | Type                  | Amount rated (Rs. crore) | Feb 25, 2025                  | FY2025  |                                 | FY2024       |                               | FY2023       |   | FY2022       |   |
|  |                       |                          |                               | Date  | Rating                          | Date         | Rating                        | Date         | Rating                                    | Date         | Rating                                    |
| <b>Fund based – Cash credit</b>        | Long term             | 4.00                     | [ICRA]BBB- (Stable)           | Oct-09-24   | [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 | -            | -   |
| <b>Fund-based Bill discounting</b>     | Long term             | 20.00                    | [ICRA]BBB- (Stable)           | Oct-09-24   | [ICRA]BB+ (Positive)            | Mar 04, 2024 | [ICRA]BB+ (Stable)            | Sep 05, 2022 | [ICRA]BB- (Stable)                        | -            | -   |
|  |                       |                          |                               |   |                                 | -            | -                             | Dec 08, 2023 | [ICRA]B+ (Stable); ISSUER NOT COOPERATING | -            | -   |
| <b>Term loan</b>                       | Long term             | 1.91                     | [ICRA]BBB- (Stable)           | Oct-09-24   | [ICRA]BB+ (Positive)            | Mar 04, 2024 | [ICRA]BB+ (Stable)            | Sep 05, 2022 | [ICRA]BB- (Stable)                        | -            | -   |
|  |                       |                          |                               |   |                                 | -            | -                             | Dec 08, 2023 | [ICRA]B+ (Stable); ISSUER NOT COOPERATING | -            | -   |
| <b>Non-fund based – Bank guarantee</b> | Short term            | 13.00                    | [ICRA]A3                      | Oct-09-24   | [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          | -            | -   |
| <b>Non-fund based – LC</b>             | Short term            | 5.00                     | [ICRA]A3                      | Oct-09-24   | [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          | -            | -   |
| <b>Unallocated</b>                     | Long term/ Short term | 26.54                    | [ICRA]BBB- (Stable)/ [ICRA]A3 | Oct-09-24   | [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]BBB-(Stable)              |
| NA   | Long term – Fund-based - Bill discounting | NA               | NA          | NA       | 20.00                    | [ICRA]BBB-(Stable)              |
| NA   | Long term – Fund-based - Term loan - 1    | Jan 2022         | NA          | Jan 2029 | 1.63                     | [ICRA]BBB-(Stable)              |
| NA   | Long term – Fund-based - Term loan – 2    | Feb 2022         | NA          | Feb 2027 | 0.28                     | [ICRA]BBB-(Stable)              |
| NA   | Non-fund based limits – Bank guarantee    | NA               | NA          | NA       | 13.00                    | [ICRA]A3                        |
| NA   | Non-fund based limits - LC                | NA               | NA          | NA       | 5.00                     | [ICRA]A3                        |
| NA   | Unallocated                               | NA               | NA          | NA       | 26.54                    | [ICRA]BBB-(Stable)/<br>[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           | SPEL ownership | Consolidation approach |
|------------------------|----------------|------------------------|
| Danya Electric Company | 90.00%         | Full Consolidation     |

## ANALYST CONTACTS

**Girishkumar Kadam**

+91 22 6114 3441

[girishkumar@icraindia.com](mailto:girishkumar@icraindia.com)

**Prashant Vasisht**

+91 12 4454 5332

[prashant.vasisht@icraindia.com](mailto:prashant.vasisht@icraindia.com)

**Kushal Kumar B**

+91 40 6939 6408

[kushal.kumar@icraindia.com](mailto:kushal.kumar@icraindia.com)

**Harjot Singh Panwar**

+91 124 4545 414

[harjot.panwar@icraindia.com](mailto:harjot.panwar@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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