

Saideep Electricals

January 09, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Term loan facilities	7.00	[ICRA]BB (Stable); Assigned
Non fund based facilities	40.00	[ICRA]A4; Assigned
Total	47.00	

Rating action

ICRA has assigned a long-term rating of [ICRA]BB (pronounced ICRA double B) to the Rs. 7.00-crore¹ fund-based bank facilities of Saideep Electricals. ICRA has also assigned a short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 40.00-crore¹ non-fund based facilities of Saideep Electricals (SE or the firm)². The outlook on the long-term rating is 'Stable'.

Rationale

The ratings assigned positively factor in the established track record of the proprietor in the electromechanical construction sector; especially in undertaking projects involving electrification and the established relations and project execution track record with major clients such as Maharashtra State Electricity Distribution Company Limited (MSEDCL) which provides revenue visibility. ICRA also takes into consideration the favourable overall demand outlook for the electromechanical sector with Government focus on rural electrification projects which also reflects in the current order book position (2.1x of FY2017 operating income (OI)).

The ratings, however, remain constrained by the high degree of concentration exhibited by SE as the firm majorly operates in the western parts of Maharashtra and largely executes MSEDCL's contracts. With three projects accounting for ~72% of the current order book, the revenues in the near term will be vulnerable to the order cycle and execution co-operation provided by MSEDCL. ICRA also takes a note of the working capital intensity arising from work in progress (WIP) inventory on SE's books as bills are raised only after predefined stage of the ongoing project is operationalized which makes the firm more dependent on funding from creditors. The firm also exhibits fluctuations in operating income on account of project oriented nature of business and faces stiff competition from other electromechanical construction players in a fragmented industry with tender based nature of business. It recorded de-growth of ~49% in its operating income in FY2017, nonetheless, in the current fiscal the firm has surpassed FY2017 OI by booking revenues of ~Rs. 50 crore till November 2017.

Going forward, effective working capital management, timely completion of projects without significant costs overruns along with maintaining bank guarantee sufficiency to scale up operations will remain key rating sensitivities for the firm.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes SE will continue to benefit from the vast experience of its proprietor in the electromechanical construction sector and well its track record with its key client; MSEDCL. The outlook may be revised to 'Positive' if the firm expands its scale of operations to record steady revenue growth and depicts better working capital management to strengthen the financial risk profile. The outlook may be revised to 'Negative' if there is considerable de-growth in revenues, strain on the working capital cycle or leveraging of capital structure through debt funded capital expenditure.

Key rating drivers

Credit strengths

Established track record of the proprietor in the electromechanical construction sector – The proprietor of SE; Mr. Sandeep Bhadange has vast experience spanning over two decades in undertaking electromechanical construction projects. SE's clientele is dominated by government entities involving electrification of rural areas and turnkey contracts pertaining to erection, installation, testing and commissioning of high tension / low tension lines, transformers and substations. The fairly established track record in execution has enabled a steady order inflow from state utilities in the tender based business.

Established relations and project execution track record – The key clients being state utilities the order awarding is entirely tender-based, where, pre-qualification remains important. On account of its project execution track record spanning over two decades, the firm enjoys established relations with its key clients such as MSEDCL, Maharashtra Industrial Development Corporation (MIDC) and local municipal councils. Furthermore, the firm is an A+ category government registered contractor which provides an edge at the time of bidding for a tender. Established relations and track record of execution reflect positively in a steady order inflow and provides revenue visibility.

Favourable demand outlook for the electromechanical sector – The overall demand outlook for transmission and distribution system, essentially line network, towers, substations is expected to remain buoyant over the next three- five year period mainly due to Government of India's (GoI's) strong thrust for generating capacity addition through various schemes. GoI is working along with the state governments through schemes such as Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) to achieve electrification in rural areas. The firm has received several orders under DDUGJY from its current order book which stands at 2.1x of FY2017 operating income (OI).

Credit weaknesses

Exposure to geographical concentration with presence restricted to western parts of Maharashtra – The firm largely operates in the western region of Maharashtra which exposes it to a geographical concentration risk. Furthermore, presence restricted to few districts in Maharashtra makes SE's business performance vulnerable to policy making at the local and zonal levels. – The firm remains highly dependent on government orders which expose it to delays in awarding of orders and thus possible delays in revenue generation. Moreover, the firm has exhibited fluctuating operating income in the past given the project oriented business it operates in.

Vulnerability to order cycle and execution co-operation provided by MSEDCL – MSEDCL remains the key client for SE. The current order book is skewed towards three orders which contribute to ~72% of the total order book. Any deferment or time/cost overrun in these projects could therefore significantly affect revenue generation of the firm over the near term.

Working capital intensive operations; sizeable funding from creditors – The firm typically exhibits high level of WIP inventory on its books as bills are raised only after predefined stage of the ongoing project is operationalized which strains liquidity position and leads to lower revenues. Furthermore, it makes the firm more dependent on sizeable funding from its creditors as reflected in total outside liabilities to tangible net-worth position of 2.98x in FY2017. Any time overruns in the ongoing projects or delays in collection from MSEDCL will strain the liquidity position along with sizeable funds being locked in the form of margin and retention money as well as contingent liability pertaining to the bank guarantees provided to MSEDCL.

Highly competitive and fragmented industry with tender based nature of business – SE operates in a highly competitive industry wherein it competes with several electromechanical contractors which limits its bargaining power and pricing flexibility. Some of the strongly positioned players enjoy competitive advantages because of their backward integration into manufacturing of transmission and distribution equipment along with the project execution experience. Moreover, it operates in a tender based business which subjects revenue generation to successful bidding and acquiring tenders.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Saideep Electricals is a proprietary firm of Mr. Sandeep Bhadange and is involved in executing turnkey electromechanical projects for state government entities such as MSEDCL, MSEB, MIDC and municipal corporations. The firm is engaged in executing turnkey electrical projects which involves designing, supplying, constructing, testing and commissioning electric infrastructure. Typical projects involve HT/LT lines, power transformers, sub stations, and also turnkey contracts for electrification of rural areas. The firm is registered with government bodies as an A+ contractor. The firm is based out of Pune, and primarily operates in the Western Maharashtra region in districts such as Pune, Ahmednagar and Kolhapur.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	85.2	43.5
PAT (Rs. crore)	4.8	3.1
OPBDIT/ OI (%)	8.5%	14.6%
RoCE (%)	26.4%	20.4%
Total Debt/ TNW (times)	1.2	1.2
Total Debt/ OPBDIT (times)	2.4	3.0
Interest coverage (times)	2.5	1.7
NWC/ OI (%)	21.8%	51.3%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating January 2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Cash Credit	Long Term	7.00	-	[ICRA]BB (Stable)	-	-	-
2 Bank Guarantee	Short Term	40.00	-	[ICRA]A4	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	7.00	[ICRA]BB (Stable)
NA	Bank Guarantee	NA	NA	NA	40.00	[ICRA]A4

Source: Saideep Electricals

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