

Sudhir Power Limited

January 14, 2019

Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Non-fund Based Limits – LC/BG #	479.0	479.0	[ICRA]AA-(Stable) / [ICRA]A1+; reaffirmed
Working Capital Limits	25.0	25.0	[ICRA]AA-(Stable); reaffirmed
Total	504.0	504.0	

sub limit of Rs. 55.0 crore for fund-based working capital facilities *Instrument details are provided in Annexure-1

Rationale

The rating action considers the extensive operational track record and promoter experience enjoyed by the Sudhir Group in the diesel generator (DG) industry. The ratings also consider the company's competitive advantage as a seasoned original equipment manufacturer (OEM) for Cummins India Limited (CIL), which is one of the leading manufacturers for engines and alternators of DG sets in India. The Sudhir Group has designated geographical distributorship rights for CIL, which have been consistently renewed for a few decades now. Over the years, the Group has developed a wide product portfolio, after-sales services offering, diverse client base and a well-entrenched distribution network. Further, the Group has diversified into the business of renting DG sets and aerial work platform (AWP) equipment, both in India and the Gulf countries, which provide steady revenues and cushions against stagnation in the domestic business. The ratings also factor in the Group's strong financial profile as marked by the sizeable scale of operations and net worth, and steady internal accrual generation. These factors, coupled with high and growing cash/liquid investments, highlight a comfortable liquidity position, translating into limited reliance on external debt (primarily for operations in the Gulf countries) and strong debt coverage metrics.

The ratings, however, are constrained by the intense competition and pressures on revenue growth due to tepid demand from end-user industries such as real estate and industrial segments, as highlighted by stagnation to modest decline in the Group's revenues in the recent years. The outlook for the industry remains subdued given the sustained slowdown in certain end-user industries, improving power scenario and growing environmental concerns. While most of the revenues continue to be generated from the DG set business, growth in other businesses such as renting DG sets and AWP equipment and solar power generation business are expected to contribute more to the bottom line. The Sudhir Group also remains exposed to risk as its business is reliant on a single vendor (i.e. CIL) and due to the cyclicity inherent to the DG set industry. ICRA also takes note of the significant treasury losses incurred on certain investments in FY2018, any recurrence of which could impact the internal accrual generation.

Going forward, the Sudhir Group's ability to maintain its revenues and profitability amid competition, and utilisation of liquid investments towards new business initiatives would be the key rating sensitivities.

Outlook: Stable

ICRA believes that SPL will continue to benefit from the brand equity, established operational track record, its wide product portfolio and association with CIL, which will enable it to maintain its market share in the industry. The outlook may be revised to Positive if substantial growth in revenues and profitability strengthens the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major capital expenditure, stretch in the working capital cycle, or deployment of surplus funds, weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of promoter and established operational track record of the Group – The promoters have almost three-decade-long experience and the Group has an established operational track record in the DG set industry.

Strong presence in North and West India as the largest OEM of CIL – The Sudhir Group has exclusive distribution rights for DG sets based on CIL's technology/components in North India (Punjab, Haryana, Himachal Pradesh, Rajasthan, Jammu and Kashmir), Gujarat and Madhya Pradesh. The Group has developed strong brand presence in these states, which is supported by a well-entrenched distribution network. CIL is among the leading players in the DG industry, controlling over 50% shares in the high horse power DG set market, which provides a competitive advantage to the Sudhir Group.

Wide range of products catering to different segments – The Group has a wide range of products that cater to the power equipment industry such as DG sets, transformers, distribution panels and sub-stations. Additionally, the Group has presence in DG servicing, DG leasing and executing electrification/automation projects. However, DG sets continue to contribute most of the revenues.

Robust financial and liquidity position – The Group's liquidity and financial profile remain healthy as indicated by steady internal accrual generation, sizeable net worth, robust debt protection metrics and high cash/liquid investments. Part deployment of the same for meeting the funding requirements of the business has continued to result in limited reliance on external debt.

Reputed and diverse customer base – The Group caters to the requirements of large established developers, commercial establishments, Government bodies and state electricity boards across its product offerings.

Credit challenges

Intense competition in the industry – The DG set industry is highly fragmented and price sensitive with many regional players competing in the low capacity segment. In the high capacity segment, however, the Sudhir Group has a competitive edge owing to its association with CIL and its strong brand.

High dependence on CIL – The Group is dependent on CIL for sourcing diesel engines. Moreover, the geographic territories are defined by CIL, which limits market expansion. Nonetheless, ICRA notes that the Sudhir Group is the largest OEM for CIL and handles the key geographic territories, which make the relationship equally important for CIL.

Sluggish demand from end-user industries – The demand for DG sets from key end-user industries such as real estate, telecom, hospitality and infrastructure has remained sluggish in the recent years due to lower economic activity as well as improving power scenario. This has moderated the revenue growth for the Group.

Uncertainty on deployment of liquid funds for new businesses – The quantum and timeline for utilisation of surplus funds remain areas of uncertainty. While the management has been prudent in its deployment of liquid funds over the years, there have been some treasury losses in FY2018 on certain investments.

Liquidity position

The liquidity position of the Group remains comfortable, supported by steady internal accrual generation, sizeable liquid investments (~Rs. 1,220 crore as on March 31, 2018) that also generate non-operating income, and no major debt repayment liability. This has resulted in limited reliance on external debt. SPL's fund flow from operations (FFO) has remained positive on the back of improvement in profit margins in the recent years. Moreover, moderate working capital intensity of the business has resulted in positive cash flow from operations. With SPL's business expected to chart a modest growth trajectory in the medium term, its FFO is estimated to remain positive.

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 Sudhir Power Limited. As on March 31, 2018, the company had seven subsidiaries and three joint ventures (enlisted in Annexure-2).

About the company

SPL was promoted by Mr. Sudhir Seth in 1973. The company is an OEM of Cummins India Limited (CIL) and one of the leading producers of DG sets in the range of 7.50 KVA to 3,000 KVA. The company also manufactures ancillary equipment such as control panels and acoustics and has a dominant position in the northern and north-western states of India. SPL is also involved in manufacturing of packaged sub-stations and transformers. It has recently forayed into the solar power generation business as well. Additionally, the Sudhir Group is involved in engineering procurement and construction (EPC) business for electrification and solar projects, leasing of DG sets and aerial work platform equipment (in India and the Gulf countries), sale of DG spare parts and maintenance of DG sets and ancillary equipment, through other Group companies. SPL has extended corporate guarantees for the bank lines of some of these Group companies. In FY2018, SPL acquired the entire transformer and electrical component business of its 100% subsidiary – Sudhir Transformers Limited.

In FY2018, on a consolidated basis, the company reported a net profit of Rs. 150.0 crore on an OI of Rs. 1,179.9 crore compared with a net profit of Rs. 224.2 crore on an OI of Rs. 1,216.8 crore in the previous year.

Key financial indicators (Consolidated)

	FY2017 (audited)	FY2018 (provisional)
Operating Income (Rs. crore)	1,216.8	1,179.9
PAT (Rs. crore)	224.2	150.0
OPBDITA/OI (%)	11.9%	13.9%
RoCE (%)	16.0%	10.1%
Total Debt/TNW (times)	0.1	0.2
Total Debt/OPBDITA (times)	0.6	1.0
Interest coverage (times)	20.6	19.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Jan 2019	Date & Rating in FY2018 December 2017	Date & Rating in FY2017 September 2016	Date & Rating in FY2016 October 2015
1 Non-fund Based – LC/BG#	Long Term/Short Term	479.0	-	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+
2 Working Capital Facilities	Long Term	25.0	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-

sub limit of Rs. 55.0 crore for fund-based working capital facilities

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
-	Non-fund Based – LC/BG#	-	-	-	479.0	[ICRA]AA- (Stable)/ [ICRA]A1+
-	Working Capital Facilities	-	-	-	25.0	[ICRA]AA- (Stable)

sub limit of Rs. 55.0 crore for fund-based working capital facilities

Source: Sudhir Power Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sudhir Transformers Limited	100%	Full Consolidation
Sudhir Sales & Services Limited	100%	Full Consolidation
Sudhir Power Projects Limited	100%	Full Consolidation
Double Ess Estates Private Limited	100%	Full Consolidation
Sudhir Cast Resin Transformers Private Limited	100%	Full Consolidation
Sudhir Gensets FZE	100%	Full Consolidation
JV of Sudhir Power Projects Limited & Cobra Instalaciones Y Servicios	98%	Full Consolidation
JV of Sudhir Power Projects Limited & Sudhir Power Limited	100%	Full Consolidation
JV - Sudhir Ready Gensets Consortium	55%	Full Consolidation

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