

June 07, 2019

Sterling & Wilson Powergen Private Limited: Ratings reaffirmed; Outlook revised to 'Negative'

Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long-term – Term Loan	25.0	25.0	[ICRA]BBB-; Reaffirmed; Outlook revised from Stable to Negative
Long-term – Fund Based/Cash Credit	5.0	5.0	[ICRA]BBB-; Reaffirmed; Outlook revised from Stable to Negative
Long-term/Short-term – Non-fund Based	102.5	102.5	[ICRA]BBB-/[ICRA]A3; Reaffirmed; Outlook revised from Stable to Negative
Total	132.5	132.5	

*Instrument details are provided in Annexure-1

Rationale

ICRA has taken a consolidated view of the Sterling Generators Group (SGG or The Group) comprising Sterling Generator Private Limited (SGPL) along with its overseas subsidiaries, Sterling & Wilson Powergen Private limited (SWPPL) and Sterling & Wilson Energy Systems Private Limited (SWESPL) by virtue of the strong operational synergies between these entities, given that SWPPL and SWESPL are the marketing arms of SGPL. Further, common management and financial linkages amongst these companies support the consolidated view. SGPL, SWPPL and SWESPL are in the process of amalgamation and once approved they will act as a single entity starting from April 01, 2019.

The revision in outlook from Stable to Negative factors in weakening of consolidated financial performance of the Group in FY2019 as reflected by deterioration in its profitability and coverage indicators primarily on account of sizeable losses incurred by the Middle East subsidiary of SGPL named Sterling & Wilson Powergen FZE (SWPFZE). The Negative outlook also reflects weak capital structure of the Group as evident from the high gearing of 7.9 times and total outside liability (TOL) to tangible net-worth (TNW) of 18.3 times. Despite the high creditors, the working capital intensity stands at a relatively high level with net working capital (NWC) to operating income (OI) ratio of 36% in FY2019, resulting in high working capital facility utilisation level.

The ratings remain constrained by the low capacity utilization of ~22% in FY2019 in the diesel generator (DG) segment and the intensely competitive nature of the industry. Weak industry demand, due to improving power supply situation in the country, has been putting pressure on profitability of the Group and the same is expected to continue going forward.

The reaffirmation of the ratings continues to factor in the financial, operational and managerial support from the promoters, Daruvala family (co-promoters of Sterling & Wilson Private Limited (SWPL)) and Shapoorji Pallonji & Company Private Limited (SPCPL, rated [ICRA]AA-&/A1+). The promoters have supported in the past in form of unsecured loans and preference shares and ICRA expects the support to continue in future if the need arises. The ratings continue to factor in efficient and reliable product portfolio catering to wide range of requirements of the customers as well as reputed clientele from diversified industries.

The management is focussing on improvement of the overseas business by venturing into new geographies in the Middle East, Australia and Africa. Pick-up in ordering, revenue generation from the overseas business and subsequent improvement in profitability remains a key monitorable going forward. ICRA will also monitor amalgamation of the three companies and resultant realisation of synergies.

Outlook: Negative

The Negative outlook reflects deterioration in the financial risk profile of the Group as evident from the weak profitability, debt coverage and leverage indicators. Subdued demand for the DG industry will continue to put pressure on growth and profitability performance of the Group going forward. The outlook may be revised to Stable if the revenue from SWPFZE reaches breakeven level which in turn improves overall Group profitability. Sustainable improvement in capital structure and coverage indicators of the group also remains critical for changing the outlook to Stable. The ratings may get downgraded if the financial risk profile of the Group remains weak as reflected in poor profitability, capital structure and coverage indicators.

Key rating drivers

Credit strengths

Strong parentage – The three companies are promoted by Daruvala family and SPCPL. SWPL (flagship entity of Daruvala family) is an Engineering, Procurement and Construction (EPC) contractor providing complete mechanical, electrical and plumbing (MEP) services. The Daruvala family also has interest in renewable power space. SPCPL is one of the reputed construction and EPC companies in India and it holds 56% in SGPL and SWPPL. SGG enjoys synergies with other promoter group companies wherein gensets requirements for the projects executed by SWPL and SPCPL are fulfilled by SGPL. The Group has received financial support from promoters over the years and preference share/unsecured loans from promoters outstanding as on March 31, 2019 stood at ~Rs. 123 crore.

Reputed client profile – With major presence into B2B business, the Group has over the years, established long-term relationships with the clients from diversified industries such as real estate, infrastructure, IT/ITeS etc. This has resulted in repeat sales and stable customer portfolio.

Efficient and reliable product portfolio – The Group sources electronic engines from reputed international players such as Volvo, MTU and Perkins ensuring reliability and quality of the products. The Group offers different engine-make diesel generator sets to cater to wide range of requirements of the customers.

Credit challenges

Weak capital structure and debt coverage indicators – The total debt of the Group primarily stood at Rs. 348 crore (including preference share/unsecured loans from promoters) as on March 31, 2019. The gearing was high at 7.9 times while the TOL/TNW was 18.3 times as on March 31, 2019. Even after adjusting for the related party debt, the ratios stood at high level. The coverage indicators of the Group have weakened over the last two years with total debt (TD) to operating profit before depreciation interest tax and amortisation (OPBDITA) standing at 9.1 times in FY2019.

Headwinds in the Middle East market and competition in domestic market impacting profitability - The Group's profitability has been impacted due to underperformance of the middle east subsidiary as demand in the geography was impacted on account of weakness in oil prices. The profitability has also been impacted by intense competition in the context of improving power supply situation in India. The Group has entered into territory demarcation arrangement with Perkins which is expected to improve pricing power going forward, which may support the domestic profitability to some extent.

Moderate scale of operations - The Group’s scale of operations remains moderate with capacity utilization of ~22% in DG segment in FY2019. The overseas business performance of the Group was modest over the last two years, however, with increasing focus on expanding its footprint in various geographies, such as Middle East, Africa, Australia, Sri Lanka, the capacity utilization is expected to increase going forward.

Liquidity Position:

The Group has cash balances of ~Rs. 16 crore as on March 31, 2019, while the unutilised working capital facilities were limited. The external term loans of ~Rs. 225 crore outstanding as on March 31, 2019 out of which Rs. 50 crore is due in June 2019. It is in process of finalizing refinancing options for the same as free cash flows are not expected to be adequate for the debt repayment in FY2020. The Group doesn’t have any project capex plans in the near term.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	<p>Parent/Group Company: Sterling & Wilson Private Limited</p> <p>The rating assigned to the SGG factors in the high likelihood of its parent, Sterling & Wilson Private Limited extending financial support to it, given the strategic importance it holds for SWPL for meeting its diversification objectives.</p> <p>Both SWPL and the SGG also share a common name, which in ICRA’s opinion would persuade SWPL to provide financial support to the Group to protect its reputation from the consequences of a group entity’s distress. There also exists a record of Sterling & Wilson Private Limited having extended financial support to the SGG in the past.</p>
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Sterling Generator Private Limited (with its one subsidiary and one associate) and two group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among them.

About the company:

Sterling & Wilson Powergen Private Limited (SWPPL), commenced operations in 2009 as the marketing arm of Sterling Generators Private Limited (SGPL). The company is engaged in the marketing, installation and after sales service of diesel generator sets which are manufactured by SGPL. While SGPL performs the exports and deemed exports sales on its own, the domestic sales functions are performed by the group companies, namely, SWPPL and SWESPL.

The Group is in the process of amalgamating all three entities namely SGPL, SWPPL and SWESPL to improve synergies and cost structure.

Key financial indicators (Consolidated)

	FY2018 (audited)	FY2019 (provisional)
Operating Income (Rs. crore)	847.7	719.5
PAT (Rs. crore)	10.3	(0.03)
OPBDIT/OI (%)	5.1%	5.3%
RoCE (%)	14.8%	9.5%
Total Debt/TNW (times)	9.7	7.9
Total Debt/OPBDIT (times)	9.1	6.8
Interest coverage (times)	1.25	0.98

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2019	Date & Rating in FY2018 March 2018	Date & Rating in FY2017 December 2016	Date & Rating in FY2016 February 2016
1 Term Loan	Long Term	25.00	0.00	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2 Cash Credit	Long-term	5.00	-	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
3 Non-fund Based	Long-term/Short-term	102.50	-	[ICRA]BBB-(Negative)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3

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 [click here](#)

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	Long-term – Term Loan	November 2014	-	March 2019	25.0	[ICRA]BBB-(Negative)
NA	Long-term – Fund Based/CC	-	-	-	5.0	[ICRA]BBB-(Negative)
NA	Long-term/Short-term – Non-fund Based	-	-	-	102.5	[ICRA]BBB-(Negative)/ [ICRA]A3

Source: SWPPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sterling & Wilson Powergen FZE	100.00%	Full Consolidation
Sterling & Wilson Nigeria Limited	49.00%	Equity Method
Sterling & Wilson Powergen Private Limited	100.00%	Full Consolidation
Sterling & Wilson Energy System Private Limited	100.00%	Full Consolidation

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