

January 27, 2021

Shri Ram Switchgears Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Cash Credit	17.00	17.00	[ICRA]D; Reaffirmed
Fund-based – Term Loans	2.70	-	-
Non-fund based- Bank Guarantee	48.00	32.00	[ICRA]D; Reaffirmed
Non-fund based- Letter of Credit	5.00	-	-
Total	72.70	49.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the continued irregularities in servicing of bank dues on the non-fund based facilities by Shri Ram Switchgears Limited (SRSL), owing to its stretched liquidity. Furthermore, the financial risk profile of the company remains weak because of a decline in its scale of operations and losses at the net level. In addition to this, the debt protection metrics and coverage indicators remain under pressure. The ratings are further constrained by the high working capital intensity of SRSL, as can be seen from NWC/OI of ~230% in FY2020. The company's receivables have been highly stretched, resulting in the increased working capital intensity. ICRA notes that the business growth of SRSL is dependent upon successful bidding for tenders for EPC contracts floated by the Madhya Pradesh electricity board. Notably, these contracts account for most of SRSL's revenues. Thus, its customer concentration remains high as more than 80% of the revenues have been contributed by a single customer.

The business profile of the company, however, is supported by experienced promoters with a track record of more than three decades in the industry, which has helped them in maintaining healthy relations with customers and suppliers. ICRA also notes healthy order book of ~Rs. 60 crore at the end of December 2020, which provides near to medium term revenue visibility.

Key rating drivers and their description

Credit strengths

Experienced promoters with established track record of operations – The promoters of the company have been involved in transformer manufacturing business for the past three decades. Their extensive experience helps the company in maintaining healthy relations with customers and suppliers.

Healthy order book provides revenue visibility – SRSL has healthy orders in hand of ~Rs. 60 crore, which are expected to be completed soon, thus providing near-to-medium term revenue visibility. This in turn is expected to support the scale of the company.

Credit challenges

Irregularities in debt servicing – There has been irregularities in servicing of non-fund based facilities due to liquidity issues as the company's receivables have been stretched with limited buffer in its fund-based limits.

Weak financial profile due to decline in scale of operations and losses at net levels; debt coverage indicators remain under pressure – The company's financial risk profile has remained on a weaker side as its scale has been declining considerably for the last two fiscals, leading to losses at the net level as seen in FY2020 and H1 FY2021. Moreover, the company's debt protection metrics and coverage indicators remain under stress.

High working capital intensity – The highly stretched working capital cycle of the company is reflected by NWC/OI of ~230% in FY2020. Hence, its liquidity profile remains under pressure.

High customer-concentration risk – The client-concentration risk of the company is high, given that most of the revenues is contributed by single client (the top customer accounted for more than 80% of revenues in FY2020) in the past couple of years.

Business growth dependent upon successfully bidding for tenders/orders – The company faces stiff competition from many organised and unorganised players in the transformer industry. Also, SRSL has to successfully bid for tenders/orders (primarily from the Madhya Pradesh electricity board) for business growth.

Liquidity position: Poor

SRSL has poor liquidity profile, given its negative cash accruals and high working capital cycle. Buffer from free cash and working capital limits too remained negligible.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company services its debt obligations in a timely manner on a sustained basis.

Negative factors – Not applicable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Shri Ram Switchgears Limited (SRSL), promoted by the Jhalani family of Ratlam (Madhya Pradesh) since 1985, manufactures electrical items such as distribution transformers, switchgear, meter boxes, feeder pillars, distribution boxes, and junction boxes used in the distribution of power and also undertake erection, installation, and operation and maintenance of these items for its customers. Its manufacturing units are located in Ratlam. SRSL's customer profile mainly consists of power discoms in Madhya Pradesh and Mumbai.

Key financial indicators

	Audited FY2019	Audited FY2020	Provisional H1 FY2021
Operating Income (Rs. crore)	28.58	22.44	1.18
PAT (Rs. crore)	0.77	-2.98	-4.39
OPBDIT/OI (%)	28.0%	12.5%	-149.7%
RoCE (%)	2.7%	-13.3%	-370.7%
Total Outside Liabilities/Tangible Net Worth (times)	3.61	4.14	5.79
Total Debt/OPBDIT (times)	4.82	15.65	-12.56
Interest Coverage (times)	1.14	0.48	-0.73
DSCR (times)	0.95	0.44	-0.46

Source: SRSL; ICRA Research

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018
						17-Feb-20	24-May-19		
1	Cash Credit	Long Term	17.0	-	[ICRA]D	[ICRA]D	[ICRA]C+	[ICRA]B+ (Stable)	[ICRA]BB- (Stable)
2	Term Loan	Long Term	-	-	-	[ICRA]D	[ICRA]C+	[ICRA]B+ (Stable)	[ICRA]BB- (Stable)
3	Bank Guarantee	Long Term	32.0	-	[ICRA]D	[ICRA]D	[ICRA]C+	[ICRA]B+ (Stable)	[ICRA]BB- (Stable)
4	Letter of Credit	Short Term	-	-	-	[ICRA]D	[ICRA]A4	[ICRA]A4	[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 [click here](http://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	17.00	[ICRA]D
NA	Bank Guarantee	NA	NA	NA	32.00	[ICRA]D

Source: SRSI

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

K. Ravichandran
+91-44-45364301
ravichandran@icraindia.com

Vipin Jindal
+91-124-4545355
vipin.jindal@icraindia.com

Manish Ballabh
+91-124-4545812
manish.ballabh@icraindia.com

Pankaj Khatri
+91-124-4545327
pankaj.khatri@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50



Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.