

July 23, 2021

Shirdi Sai Electricals Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term Non-Fund-based Facilities	657.00	670.00	[ICRA]BB(Stable)/[ICRA]A4; reaffirmed
Long-term Fund-based Working Capital	107.00	110.00	[ICRA]BB(Stable); reaffirmed
Long-term/Short-term Unallocated limits	-	24.00	[ICRA]BB(Stable)/[ICRA]A4; Assigned
Total	764.00	804.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation in long-term rating factors in the improvement in operating revenues and receivables collection by Shirdi Sai Electricals Limited (SSEL). It has recorded 22% YoY growth in operating revenues in FY2021 (provisional), which stood at Rs. 913.1 crore against Rs. 750.4 crore in FY2020. The revenue growth is led by higher execution of orders for Andhra Pradesh and Bihar distribution utilities. Further, the receivable collections improved as evident from decline in debtors greater than 180 and 360 days to Rs. 147.2 crore as on March 31, 2021 compared to Rs. 211.0 crore as on March 31, 2020, led by realisations of pending receivables from Bihar discom. However, the overall receivable position stood higher in FY2021 compared to FY2020 on account of higher sales in the last quarter. ICRA further notes that the company has completed the acquisition of Indotech Transformers Limited (ITL) in September 2020. The promoters had brought in their share of equity for the transaction.

The ratings positively factor in SSEL's established presence in the distribution transformer manufacturing segment, along with its close to two-decade experience as an EPC contractor. The company enjoys strong relationship with its client base as evident from the receipt of repeat orders from the discoms. Furthermore, backward-integrated operations and in-house manufacturing of ~70% transformer sub-parts provide SSEL with higher control on both cost and quality. ICRA takes note of the company's healthy order book position, ~Rs. 1,900 crore as on May 28, 2021, which provides revenue visibility in the near to medium term. In addition, the acquisition of ITL is expected to entail synergistic benefits and aid SSEL to cater to private enterprise requirement.

The ratings, however, are constrained by the company's stretched receivable position as a significant portion of it is withheld or kept as retention money particularly by Bihar discoms. While ICRA notes that the projects undertaken in Bihar have achieved significant progress and are nearing completion, timely realisation of retention/withheld money remains crucial. The ratings remain tempered by the high geographical and customer concentration risks, as Andhra Pradesh state power distribution utilities (discoms) contribute to over 70% of SSEL's revenue and 90% of the outstanding order book. In addition, the ratings factor in the vulnerability of its profitability to volatility in commodity prices. However, the same is mitigated to large extent by the price escalation clauses in the contracts. In addition, the fragmented nature of the transformer industry results in pricing pressure to some extent.

ICRA notes that SSEL has won solar power projects of 2200 MW in February 2021 from Andhra Pradesh Green Energy Corporation Ltd (APGECL). However, the Hon'ble HC of Andhra Pradesh quashed APGECL's 6,400 megawatt (MW) bid, quoting that the bidding is not as per the Centre's guidelines for renewable energy tenders. Going forward, SSEL may participate for fresh bids after evaluating project viability and profitability and ICRA will continue to monitor the progress on the same.

The Stable outlook reflects ICRA's opinion that SSEL will continue to benefit from the extensive experience of its promoters in the electrical engineering segment. Further, the healthy order book position and expected orders in pipeline offer near-to-medium-term revenue visibility.

Key rating drivers and their description

Credit strengths

Long track record in transformer industry – SSEL is one of the prominent players in the distribution transformer manufacturing industry. It has emerged as an EPC contractor in the segment over the years. The company's major clients include state power distribution utilities across Andhra Pradesh, Bihar, Madhya Pradesh, Odisha, etc.

Backward-integrated operations provide cost and quality control – SSEL's backward integration into core, conductor, winding and tank fabrication operations aids in healthy profitability. While several transformer manufacturers outsource production of these parts, in-house manufacturing of about 60-70% of transformer parts provides the company with significant cost control opportunities and ensures quality control.

Satisfactory order book position – SSEL's revenue has recorded a YoY growth of 22% and stood at Rs. 913.1 crore in FY2021 (prov) against Rs. 750.4 crore in FY2020. Further, the company reported an outstanding order book of ~Rs. 1,900 crore as on March 28, 2021, which provides revenue visibility going forward.

Credit challenges

High working capital intensity – SSEL's working capital intensity remains high as reflected by NWC/OI of 28.2% for FY2021, increased from 26.7% in FY2020, because of stretched receivables, retention money and inventory holding requirements. This coupled with deferment in project execution in Bihar due to rains led to delayed servicing of debt obligations (LC devolvement) in the past. However, the projects in Bihar are nearing completion, which in turn would enable the company to realise the retention money and ease its liquidity position. Further, the receivable collections have improved as evident from decline in debtors greater than 180 days which stood at Rs. 147.2 crore as on March 31, 2021 compared to Rs. 211.0 crore as on March 31, 2020, driven by realisations of pending receivables from Bihar discom. Going forward, pending receivables of around Rs.130.0 crore is expected to be realised before December 2021.

High customer and geographical concentration risks – The customer and geographical concentration risks remain high as Andhra Pradesh and Bihar state power distribution utilities contribute to over 90% of the company's revenue and outstanding order book. ICRA, however, notes that the projects undertaken by SSEL are funded by Central/multi-lateral agencies.

Profitability exposed to volatility in raw material prices – SSEL's profitability remains exposed to volatility in raw material prices. However, most of the contracts have price escalation clauses based on the published indices.

Execution risks associated with orders – The company's ability to execute the orders within the budgeted costs and time remains important for the overall performance.

Stiff competition in industry – The highly fragmented nature of the transformer industry results in intense competition, which in turn translates to pricing pressure to a certain extent.

Liquidity position: Stretched

SSEL's liquidity position remains **stretched** given the high average utilisation of fund-based limits (~92% in the past 12 months ending April 2021) and nominal free cash balances compared to the sizeable LC maturities in the near term. Further, the company's debt servicing ability completely hinges on the timeliness of receivable receipt, given the limited cushion available in terms of unused working capital facilities.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of sustained track record of payments from discoms with withheld/retention money received from Bihar discoms, in a timely manner, and/or improvement in liquidity buffer and geographical diversification of the company's order book position.

Negative factors – The ratings could witness a downward revision in case of delays in receipt of payments/release of retention money from discoms and/or if there is significant deterioration in scale of operations or profit margins, on a sustained basis, leading to weakening in its key credit metrics and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of the entity. For arriving at the ratings, ICRA has consolidated the financials of SSEL and ITEL w.e.f September 3, 2020 (date of acquisition)

About the company

Incorporated in 1994, SSEL manufactures power and distribution transformers (up to 20 MVA, 66 kV). The company has a transformer manufacturing facility in Kadapa, Andhra Pradesh. It designs and manufactures power and distribution transformers to cater to the needs of electricity utilities as well as private enterprises. SSEL also provides solutions for power transmission and distribution systems through its turnkey projects division.

Key financial indicators (audited)

SSEL Standalone*	FY2019	FY2020	FY2021 (Provisional)
Operating Income (Rs. crore)	1,057.1	750.4	913.1
PAT (Rs. crore)	113.6	68.1	87.0
OPBDIT/OI (%)	20.0%	17.1%	17.1%
RoCE (%)	10.7%	9.1%	29.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	0.9	0.8
Total Debt/OPBDIT (times)	0.58	0.81	0.79
Interest Coverage (times)	6.24	3.68	3.91

*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); *acquisition of ITEL was completed in September 2020

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating		Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					July-23-2021	June-17-2021	Feb-08-2021	Jul-28-2020		
1	Long-term/Short-term Non-Fund-based Facilities	Long-term and short term	670.00	-	[ICRA]BB(Stable)/[ICRA]A4	[ICRA]BB(Stable)/[ICRA]A4	[ICRA]B+(Stable)/[ICRA]A4	[ICRA]C+/[ICRA]A4	-	-
2	Long-term Fund Based Working Capital	Long-term	110.00	-	[ICRA]BB(Stable)	[ICRA]BB(Stable)	[ICRA]B+(Stable)	[ICRA]C+	-	-
3	Long-term/Short-term Unallocated limits	Long-term and short term	24.00	-	[ICRA]BB(Stable)/[ICRA]A4	-	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Letter of Credit/ Bank Guarantee	Very Simple
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, is available on ICRA's 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	110.0	[ICRA]BB(Stable)
NA	Letter of Credit/Bank Guarantee	NA	NA	NA	670.0	[ICRA]BB(Stable)/[ICRA]A4
NA	Unallocated	NA	NA	NA	24.0	[ICRA]BB(Stable)/[ICRA]A4

Source: SSEL

Annexure-2: List of entities considered for consolidated analysis

Company Name	SSEL Ownership	Consolidation Approach
Shirdi Sai Electricals Limited	100.00% (rated entity)	Full Consolidation
Indotech Transformers Limited	73.64%	Full Consolidation

Source: ITL's shareholding pattern ending March 31, 2021

Note: ICRA has taken a consolidated view of SSEL and ITL w.e.f September 2020

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About ICRA Limited:

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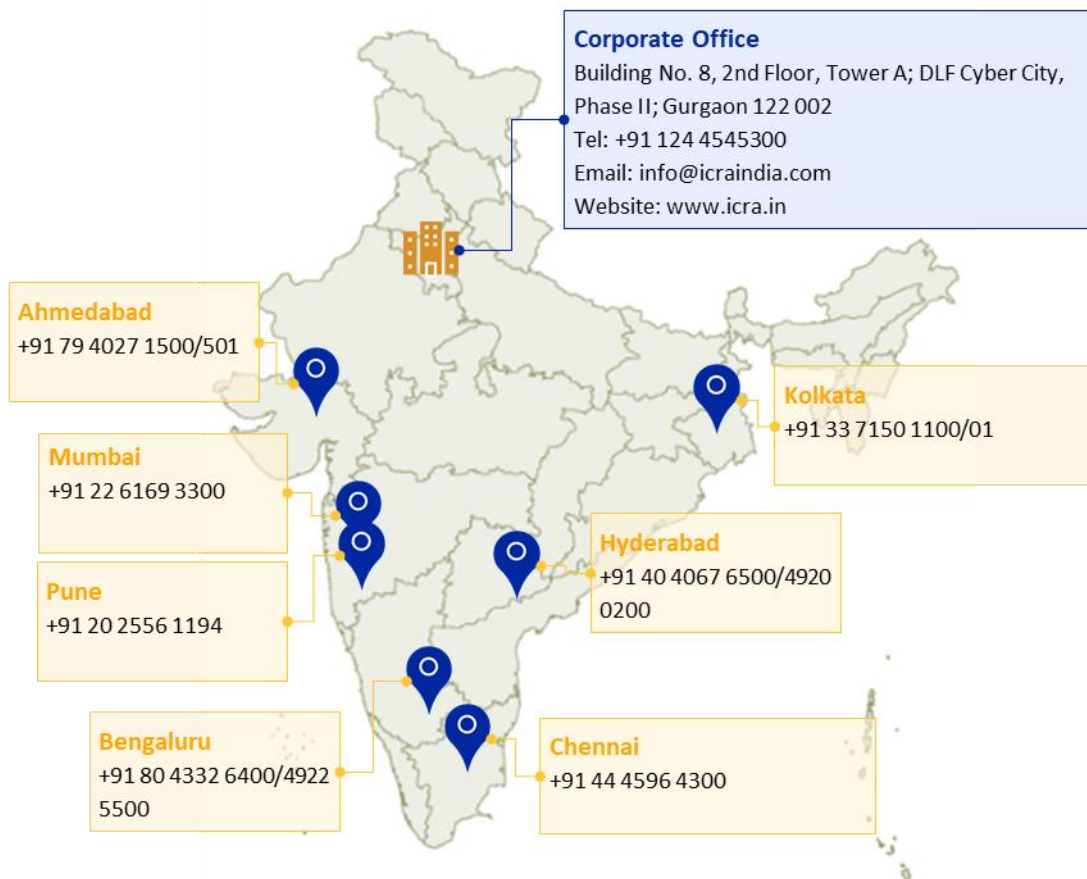
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