June 03, 2022

Shirdi Sai Electricals Limited: Ratings upgraded; Outlook revised from Positive to Stable; rated amount enhanced;

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund-Based Cash Credit	110.00	110.00	[ICRA]BBB-(Stable), upgraded from [ICRA]BB+(Positive)
Long/Short Term-Non-Fund Based-LC/BG	670.00	670.00	[ICRA]BBB-(Stable)/[ICRA]A3, upgraded from [ICRA]BB+(Positive)/[ICRA]A4+
Term loan	0.00	50.00	[ICRA]BBB-(Stable), assigned
Unallocated	24.00	24.00	[ICRA]BBB-(Stable)/[ICRA]A3, upgraded from [ICRA]BB+(Positive)/[ICRA]A4+
Total	**804.00**	**854.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade factors in the healthy revenues growth in FY2022 and a strong order book of Shirdi Sai Electricals Limited (SSEL) at Rs. 7,497.66 crore as on April 25, 2022 compared with 5,890.51 crore as on November 30, 2021. It includes Rs. 4,844.51 crore for the installation, operation and maintenance of smart meters by Andhra Pradesh discoms, leading to a strong revenue visibility going forward. The capex portion of the said project is expected to take off from in next 2-3 months that will result in strong revenue growth with an estimated revenue of ~Rs. 3,500 crore in FY2023 compared with Rs. 1357 crore in FY2022. Backed by the high margin accretive smart meter project and the overall increase in scale, the operating profit margin is also expected to remain healthy going forward.

ICRA also draws comfort from SSEL's established presence in the distribution transformer manufacturing segment along with its experience of around two decades as an EPC contractor. The company enjoys strong relationship with its clients evident from the repeat orders from the discoms. Further, backward-integrated operations and in-house manufacturing of ~70% transformer sub-parts provide SSEL with better control over both cost and quality.

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 in Bihar have made significant progress and are nearing completion, the timely realisation of the retention/withheld money along with enhanced liquidity buffer to fund the expected growth 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 91% of the outstanding order book. Also, the fragmented nature of the transformer industry adds to the pricing pressure.

ICRA notes that SSEL has received a letter of award to set up a 4-GW fully-integrated solar module manufacturing facility under the production-linked incentive programme. The transaction structure, funding mix and strategic partner/technical tie-ups is still at a planning stage. ICRA will monitor the development closely, given the large scale of the projects, the significant investment outlay and the company's limited experience in executing solar module manufacturing.

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 and has emerged as an EPC contractor in the segment over the years. The company's major clients include state power distribution utilities of 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 the production of these parts, SSEL manufactures about 60-70% of the transformer parts in-house that gives it significant cost-control opportunities and ensures quality control. In the current fiscal, the company has acquired PTR manufacturing unit located at Prayagraj, Uttar Pradesh, which will result in strengthen the company's footprints in North India.

Healthy order book position; expected revenue and margin growth: SSEL had an outstanding order book of Rs. 7497.66 crore as on April 25, 2022, which provides a healthy revenue visibility going forward. SSEL's operating income (OI) improved by 48% to Rs. 1357.4 crore in FY2022 from Rs. 919.5 crore in FY2021. In the current fiscal with the expected take-off of the smart meter project in FY2023, the revenues are expected to be around 3500 crore during the fiscal. In FY2022 (provisional), the operating margin and net margin of the company stood healthy at 20.5% (17.9% in FY2021) and 12.5% (9.6% in FY2021), respectively. In the current fiscal, given the higher expected margins from the smart meter project, the blended margins at the company level are expected to improve by 200-300 basis points at the operating level. The company has tied-up funds of Rs. 483 crore for Smart metre project.

Credit challenges

High working capital intensity: SSEL's working capital intensity remains high because of the stretched receivables, and retention money and inventory holding requirements. As on March 2022, the outstanding retention money stood at Rs. 136.17 crore, of which majority of the retention money are blocked is of Bihar discoms. 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 in next 4-5 months. Also, majority of the company's revenues are concentrated with the Andhra Pradesh discoms which have shown a good and timely payment track record. Given the expected increase in scale of operations, the working capital requirements are likely to increase and its ability to efficiently manage its cash conversion cycle along with timely funding tie-ups will remains important from a credit perspective.

High customer and geographical concentration risks: The customer and geographical concentration risks remain high as the Andhra Pradesh discoms 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/multilateral agencies. However, management has indicated that the concentration is majorly attributable due to company bidding for projects only in states where the funding tie up is available from central/multilateral agencies. Moreover, the company is bidding for new projects in new geographies which is expected to mitigate the geographic concentration risk to some extent.

High competition: Competition is intense in the highly fragmented transformer industry, which in turn translates into pricing pressure to a certain extent. The company, however, benefits from a backward integrated operation which results in cost-control and ensures quality of the products.

Liquidity position: Stretched

The company's liquidity position of the company remains stretched as reflected by high working capital utilisation (average utilisation of 85% during the last 15 months period ending April 2022 (for sanctioned limits of Rs. 110 crore) and LC maturities in the near term (~Rs.60-65 crore monthly). The unencumbered cash balances stood moderate at Rs. 16.32 crore as on March 31, 2022. Nonetheless, the company expects release of Rs.35 crore of the retention money from Bihar discom by June 2022 and the remaining (Rs. 75 crore) to be released by September 2022 that will support the liquidity.

Additionally, the proposed enhancement of the working capital limits by Rs. 65-70 crore for funding incremental working capital requirements to support the liquidity position.

Rating sensitivities

Positive Factors: The ratings could be upgraded in case of sustained track record of payments from discoms, in a timely manner, and/or significant improvement in liquidity buffer on a sustained basis along with steady improvement in the scale and profitability and customer diversification.

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 deterioration of liquidity position. ICRA may also downgrade the ratings, if higher than anticipated debt funded capex adversely impacts its key credit metrics as well as liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA's approach on consolidation
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of SSEL and its subsidiary Indotech Transformers Limited.

About the company

SSEL, incorporated in 1994, manufactures power and distribution transformers (up to 20 MVA, 66 kV). The company has a transformer manufacturing facility at 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.

SSEL acquired a majority stake in Indotech Transformers Limited (ITL) in FY2021 and at present holds a 70.01% stake in ITL. ITL, incorporated in 1992, manufactures power and distribution transformers and various special application transformers, mobile sub-station transformers and sub-stations. The company has its manufacturing facilities in Chennai and Kancheepuram in Tamil Nadu.

Key financial indicators

SSEL	Standalone		Consolidated
	FY2021	FY2022 (Prov)	FY2021 (Consolidated)
Operating Income (Rs. crore)	919.5	1357.4	1088.3
PAT (Rs. crore)	88.5	169.4	100.7
OPBDIT/OI (%)	17.9%	20.5%	16.4%
PAT/OI (%)	9.6%	12.5%	9.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.6	0.7
Total Debt/OPBDIT (times)	0.7	0.3	0.7
Interest Coverage (times)	3.9	6.4	4.1
DSCR (times)	2.8	4.1	2.9

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 (FY2023)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022			Date & Rating in FY2021		Date & Rating in FY2020
					June 3, 2022	February 8, 2022	July 23, 2021	June 17, 2021	February 8, 2021	July 28, 2020	-
1	Cash credit	Long-term	110.00	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable)	[ICRA]C+	-
2	Non fund based	Long-term and Short-term	670.00	-	[ICRA]BBB- (Stable)/[ICRA] A3	[ICRA]BB+ (positive)/[ICRA} A4+	[ICRA]BB (Stable)/[ICRA }A4	[ICRA]BB (Stable)/[ICRA }A4	[ICRA]B+ (Stable) /[ICRA] A4	[ICRA]C+ /[ICRA] A4	-
3	Term Loan	Long-term	50.00	0.00*	[ICRA]BBB- (Stable)						
4	Unallocated	Long-term and Shor	24.00	-	[ICRA]BBB- (Stable)/[ICRA] A3	[ICRA]BB+ (Positive)/[ICRA} A4+	[ICRA]BB (Stable)/[ICRA }A4	[ICRA]BB (Stable)/[ICRA }A4	-	-	-

		t- term									

not disbursed yet

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Non fund based limits	Very Simple
Term Loan	Simple
Unallocated	NA

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/Banker's name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	110.00	[ICRA]BBB- (Stable)
NA	Non fund based	NA	NA	NA	670.00	[ICRA]BBB- (Stable)/[ICRA]A3
NA	Term Loan	March 2022	NA	FY2029	50.00	[ICRA]BBB- (Stable)
NA	Unallocated	NA	NA	NA	24.00	[ICRA]BBB- (Stable)/[ICRA]A3

Please click here to view details of lender-wise facilities rated by ICRA

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	70.01%	Full Consolidation

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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.

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