



## Press Release

### Shirdi Sai Electricals Limited (SSEL)

February 10, 2021

#### Ratings

Sl. No.	Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Fund Based- Bank Facilities	126.76	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Assigned
2	Short Term Non-Fund Based Bank Facilities	670.00	IVR A4+ (IVR A Four Plus)	Assigned
	<b>Total</b>	796.76		

**Details of Facilities are in Annexure 1**

#### Detailed Rationale

The ratings assigned to the bank facilities of Shirdi Sai Electricals Limited (SSEL) derives comfort from its long track record of operation under experienced promoter, technological tie-up with Hitachi Group for manufacturing energy efficient transformers and satisfactory order book position indicating a near to medium term revenue visibility. However, these rating strengths are partially offset by moderation in its financial performance in FY20, exposure to tender-based nature of operation in a competitive industry with presence of many organised players, exposure to customer and geographical concentration and exposure to volatile raw material prices. The ratings also note high working capital intensity of its business with stretched liquidity.

#### Rating Sensitivities

##### Upward Rating Factors

- Sustained revenue growth coupled with improvement in profitability
- Growth in cash accrual and improvement in liquidity with improvement in its fund based working capital limit utilisation
- Continued improvement in receivable position/release of retention money

##### Downward Rating Factors

- Any decline in revenue and operating margin impacting the cash accruals
- Deterioration in debt protection metrics with interest coverage ratio gone below 4x and stretch in receivable position on account of the performance of the Discoms



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- Moderation in capital structure with TOL/TNW gone below 1.5x.

### Detailed Description of Key Rating Drivers

#### **Key Rating Strengths**

- **Long track record of operation under experienced promoter**

SSEL has a long presence in the industry for more than three decades and emerged as an established player in distribution transformer manufacturing industry and as an EPC contractor. The day-to-day activities of SSEL are managed by N Visweswara Reddy. He is a Mechanical Engineer and has vast experience in this industry. With a modest beginning from servicing of transformers, he ventured the company into EPC business to undertake rural electrification works, substation works and other transmission and distribution related projects. Mr. Visweswara Reddy has received National Energy Conservation Award from Ministry of Power in 2014 for his contribution to produce more number of energy efficient transformers in the country.

- **Technological tie-up with Hitachi Group for manufacturing energy efficient transformers**

SSEL has signed an agreement with Metglas Inc (Hitachi Group) for manufacturing of amorphous core-based transformers. As per the agreement, Hitachi group provides SSEL with AMT (amorphous metal) which is used in manufacturing of energy efficient transformers. These materials have high magnetic susceptibility, very low coercivity and high electrical resistance and reduce losses in the transmission segment.

- **Satisfactory order book position:**

SSEL has an outstanding order book of Rs.1331.27 crore as on as on October, 2020 (1.77x of FY20(A) total operating income) which provides revenue visibility for the company going forward.

#### **Key Rating Weaknesses:**

- **Moderation in financial performance in FY20**

Total Operating Income remained erratic in the period FY 2018-2020 with moderation observed in FY2020 where total operating income declined from Rs.1057.13 Crore in FY19 to Rs.750.40 Crore in FY20 (Audited) due to fall in income from turnkey projects from Rs.634.45 crore in



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FY19 to Rs.386.87 Crore in FY20. With decline in topline, absolute EBITDA has also fallen drastically from Rs.211.59 crore to Rs. 128.31 Crore due to fall in operating income. SSEL does not have any major long-term debt and the debt profile of the company primarily consists of working capital borrowings (Bank Guarantee, LC and Cash Credit) and unsecured loans from NBFC. The capital structure of the company remained comfortable with overall gearing of 0.39x as on March 31, 2019 (A) and 0.27x as on March 31, 2020. Debt protection parameters also remained comfortable with interest coverage ratio of 9.30x in FY19 and 5.50x in FY20, the decline in ICR was due to decline in EBITDA and increase in interest expenses. Total outside Liabilities to Tangible Net worth remained comfortable with 1.32x in FY19 and 0.94x in FY20 (Audited). During H1FY21, the company has achieved a revenue of ~351 crore.

- **Exposure to tender-based nature of operation**

Majority of the business is driven from government owned Public Sector Undertakings like Central Power Distribution and Company of AP Ltd. (CPCDL), Southern Power Distribution Power Company of AP Ltd. (SPDCL), South Bihar Power Distribution Company Ltd, etc. which exposes the turnover to any variation in the number or size of orders. The company faces competition from many organized and unorganized players in the sector, as tendering is based on minimal amount of bidding of contracts, however to an extent this risk is mitigated on account of extensive experience of the promoters.

- **Competitive nature of the industry**

The power sector and especially the ancillary sector serving the main power generation and distribution companies is very competitive. It is evident from the very fine margins at which these companies operate at. Also, the process of allocating orders through the tendering process ensures that the playing field is even for all players and that the same entities cannot continue winning orders if they are not competitively priced. Also, the tenders are allotted to multiple entities by the SEBs to ensure that the orders are not concentrated with a single entity.

- **High working capital intensity**

SSEL's working capital intensity remains high marked by its stretched receivables and high retention money. Total receivables outstanding as on September 30, 2020 is Rs.246.60 Crore which includes receivables outstanding for more than 360 days



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aggregating to Rs.150.58 (~61% of total receivables) [out of which Rs.138.61 crore in the form of retention money]. The average utilisation of its bank borrowings was also high around ~92% for the last 11 months ended December 31, 2020, implying that the liquidity position of the company is stretched. Further any adverse impact on the performance in the discoms, particularly given the adverse impact of the Covid-19 pandemic, is likely to impact the receivable position of SSEL.

- **Customer and geographical concentration**

The production facility of SSEL is located in Kadapa, Andhra Pradesh. The company's clientele is comprised almost entirely of the State Electricity Boards (SEBs) of Andhra Pradesh, Telangana & Bihar indicating high customer and geographic concentration.

- **Exposure to volatile raw material prices and competitive pressure**

Prices of raw materials such as Copper, Transformer Oil & Amorphous Cold rolled grain oriented (CRGO) forming ~ 60% of the total raw material cost have historically remained volatile. CRGO steel is imported in India due to lack of any domestic manufacturing facility, which results in added volatility in its prices due to movement in foreign exchange (forex) rates. Further, the full impact of volatile raw material prices cannot be passed on to customers on account of high competition in the industry. This exposes SSEL profitability to raw material price fluctuation risks and competitive pressures since majority of the company's orders are fixed price in nature. With no major exports there is no natural hedge against the forex risk.

**Analytical Approach:** Standalone

**Applicable Criteria:**

Rating Methodology for Manufacturing and Service sector companies

Financial Ratios & Interpretation (Non-Financial Sector)

**Liquidity: Stretched**

The liquidity position of the company appears to be stretched due to its elongated average receivable period and high utilisation of working capital limit of ~92% for the last eleven months ended December 31, 2020 indicating a low liquidity buffer. Further, the company has availed Covid related moratorium as per RBI policy. However, the company is expected to generate



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adequate cash accruals to serve its debt obligations. Further, the company's liquidly position is expected to improve going forward with realisation of retention money in regular intervals.

### **About the Company**

Shirdi Sai Electricals Ltd. (SSEL) is one of the Power and Distribution Transformer (up to 20 MVA, 66 KV) manufacturing company in India, established in the year of 1994 as a partnership firm at Kadapa, Andhra Pradesh. The said partnership firm is then converted to public Company on July 30, 2010. The company designs and manufactures Power and Distribution Transformers to cater to the needs of Electric Utilities and Private Enterprises within India and abroad.

### **Financials (Standalone):**

(Rs. crore)		
For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	1057.13	750.40
EBITDA	211.59	128.31
PAT	113.61	68.12
Total Debt	122.08	104.36
Adjusted Tangible Net worth	312.54	380.11
EBITDA Margin (%)	20.02	17.10
PAT Margin (%)	10.71	9.02
Overall Gearing Ratio (x)	0.39	0.27

\*Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** Nil

### **Rating History for last three years:**

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	110.00	IVR BB+ /Stable Outlook	-	-	-





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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
2.	Term Loan	Long Term	16.76	IVR BB+ /Stable Outlook			
3.	Bank Guarantee	Short Term	512.00	IVR A4+			
4.	Letter of Credit	Short Term	158.00	IVR A4+			

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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### About Infomerics:

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of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	110.00	IVR BB+ /Stable Outlook
Term Loan	-	-	2022	16.76	IVR BB+ /Stable Outlook
Bank Guarantee	-	-	-	512.00	IVR A4+
Letter of Credit	-	-	-	158.00	IVR A4+