



Press Release

Shreem Electric Limited

January 20, 2023

Ratings:

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	199.67	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	240.73	IVR A4+ (IVR A Four Plus)	Assigned	Simple
Total	440.40 (Rupees Four hundred and forty crore and forty lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale:

The ratings assigned to the bank facilities Shreem Electric Limited (SEL) derives strength from the extensive experience of management, long track record of operations of the company in EPC business and moderate scale of operations. The ratings are, however, constrained by the decline in profitability, the working capital intensive nature of its operations, moderately leveraged capital structure with weak debt coverage indicators, and tender driven nature of business with high competitive intensity.

Key Rating Sensitivities

Upward Factors

- Strong revenue growth along with improved operating margin of more than 30%.
- Improvement in operating cycle period below 150 days with substantial drop-in collection days on a sustainable basis.
- Prudent working capital management to improve liquidity profile and debt coverage metrics on a sustained basis.
- Improvement in total debt/GCA <5x on a sustainable basis.

Downward Factors

- Deterioration in revenue and operating margins of less than 10%, resulting in lower-than expected cash accruals.



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- Stretch in working capital cycle leading to deterioration of liquidity position.
- Deterioration in the capital structure i.e., $>1.50x$.

Key Rating Drivers with detailed description:

Key Rating Strengths:

Extensive experience of management

Established in 1976, SEL is promoted by Mr. Shahaji Jagdale and his family. Mr. Shahaji Jagdale has more than four decades of experience in electrical engineering industries. with the other promoters are Mr. Deepak Maheshwari (having around 30 years of experience), Mr. Vishal Shahaji Jagdale (having more than 20 years of experience) and Mr. Vikas Shahaji Jagdale (having more than 15 years of experience). With long and established presence in the industry, the promoters have established a strong network of suppliers and customers. The day-to-day operations of the company are looked after by the senior management having considerable experience with technological background under the guidance of the promoters.

Long track record of operations of the company in EPC business

The company has successfully completed numerous projects in the electrical engineering industries since entering the electrical EPC market in 1996. The company also undertakes manufacturing of electrical components like capacitor, circuit breakers, control and relay panels, lightning arresters, switch gears, panel building, etc. The company has completed several orders up to 400 KVA for various state electricity boards under the EPC segment, including contracts for the construction of distribution substations, capacitor banks, etc. SEL is presently supplier to customers of repute like Power Grid Corporation, Indian Railways, and various State Electricity Boards.

Moderate scale of operations

SEL's total operating income has reflected fluctuations in the last 3 years owing to lower reliance on EPC business, wherein margin was low and focusing more on manufacturing business. In FY21, the company's total operating income declined by 36.89% to Rs. 279.31 crore vis-à-vis Rs. 445.07 crore in FY20. The decline in operating income was on account drop in demand for electronic products coupled with slower execution of the projects owing to outbreak of Covid-19 coupled with selective bidding done by the company to improve its collection period. However, total operating income increased marginally to Rs.287.45 crore in FY22 based on demand for electrical components in market.



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Key Rating Weaknesses:

Decline in profitability

EBITDA and PAT margins decreased from 16.91% and 3.15% respectively in FY21 to 13.91% and 1.07% respectively in FY22 mainly on account volatility in raw material prices.

The working capital intensive nature of its operations

Operations of SEL are working capital intensive due to high collection period. Working capital requirements are high marked by elongated high receivable period of 507 days as on March 31, 2022. The receivable was high mainly because clients include public sector or state and central government entities, payments from whom are generally delayed. Working capital requirements are expected to be at high levels over medium term. Moreover, the company needs to provide performance bank guarantees to its customers. The duration of these performance bank guarantees ranges from five to seven years. This further stretches its liquidity position as significant amount of cash remain blocked in margin money against the bank guarantee.

Moderately leveraged capital structure with weak debt coverage indicators

The financial risk profile of the SEL is marked by moderately leveraged capital structure and weak debt coverage indicators. The overall gearing ratio and TOL/TNW ratio were at 1.27x and 1.78x respectively as on March 31, 2022, as against 1.30x and 1.97x respectively as on March 31, 2021, primarily due to repayment in term loan and accretion of profit to reserves. Further, the interest coverage ratio and total debt to GCA ratio were weak at 1.00x and 61.46x respectively in FY22 as against 1.01x and 52.08x respectively in FY21.

Tender driven nature of business with highly competitive intensity

The electrical engineering procurement is highly fragmented due to low entry barriers such as minimal capital and technology requirements. Further, the tender-based business necessitates aggressive bidding and leads to fluctuation in sales. Intense competitive pressure and tender-based operations may continue to constrain scalability, pricing power and profitability. However, these risks are partially offset because existing players are preferred over new entrants as tender requirement includes conditions such as minimum years of experience, number of meters manufactured, quality certificates and scale of turnover.

Analytical Approach: Standalone



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Applicable Criteria:

[Policy of Default Recognition](#)

[Criteria of assigning Rating Outlook](#)

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

Liquidity – Stretched

The gross cash accruals were tightly matched debt obligations, and a similar trend is expected in FY23 and beyond. The liquidity position remained stretched marked by the average working capital utilization of company stood 89.01% during the last 12 months ended September 2022. The slower collection of receivables led to tight liquidity position. Further, the current ratio stood at 1.74x as on March 31, 2022, as against 1.46x March 31, 2021.

About the Company

SEL was incorporated on January 2, 1976, in the name of Shreem Capacitors Private Limited. In the year December 2009 the company was renamed to Shreem Electric Private Limited. On February 26, 2010, the company was converted into a Public Limited Company - Shreem Electric Limited. The company has its registered office at Sangli. The factory and in-house Research and Development (R & D) centre is located at Jaysingpur, Dist. Kolhapur.

SEL is involved in the business of manufacturing of wide range of medium and high/ low voltage capacitors, capacitor banks, circuit breakers, control, and relay panels, lightening arrestors, switchgear, water cooled capacitors, substation structures and executing turnkey projects for electricity transmission and distribution sector.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2021	31-03-2022
	(Audited)	(Audited)
Total Operating Income	279.31	287.45
EBITDA	47.22	39.97
PAT	8.95	3.13
Total Debt	297.39	293.76
Tangible Networth	228.89	232.02
Ratios		
EBITDA Margin (%)	16.91	13.91
PAT Margin (%)	3.15	1.07
Overall Gearing Ratio (x)	1.30	1.27

*Classification as per Infomerics' standards



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Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021- 22	Date(s) & Rating(s) assigned in 2020- 21	Date(s) & Rating(s) assigned in 2019- 20
1.	Cash Credit	Long Term	199.67	IVR BB+/ Stable	-	-	-
2.	Letter of Credit	Short Term	96.75	IVR A4+	-	-	-
3.	Bank Guarantee	Short Term	143.98	IVR A4+	-	-	-

Name and Contact Details of the Rating Team:

Name: Shreekant Kadere Tel.: (022) 6239 6023 Email: shreekant.kadere@infomerics.com	Name: Niriksha Gupta Tel.: (022) 6239 6023 Email: niriksha.gupta@infomerics.com
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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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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	-	-	-	199.67	IVR BB+/ Stable
Letter of Credit	-	-	-	96.75	IVR A4+
Bank Guarantee	-	-	-	143.98	IVR A4+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details: <https://www.infomerics.com/admin/prfiles/SEL-JAN23.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it based on complexity and a note thereon is available at www.infomerics.com.