



Press Release

Shreem Electric Limited

May 21, 2024

Ratings

Instrument / Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	227.89 (Increased from Rs. 199.67 crore)	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Upgraded and removed from Issuer Not Cooperating	Simple
Short Term Bank Facilities	209.00 (Reduced from Rs. 240.37 crore)	IVR A4+ (IVR A Four Plus)	Upgraded and removed from Issuer Not Cooperating	Simple
Total	436.89 (Rupees Four hundred and thirty-six crore and eighty-nine lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics has upgraded and removed the rating assigned to the bank facilities of Shreem Electric Limited (SEL) from Issuer Not Cooperating category. The ratings continue to factor in the extensive experience of management and moderate scale of operations. The rating strengths are, however, constrained by moderate profitability, working capital-intensive nature of operations, moderately leveraged capital structure with weak debt coverage indicators and tender driven nature of business with highly competitive intensity.

Key Rating Sensitivities:

Upward Factors

- Substantial increase in revenues along with profitability leading to improvement in debt protection metrics.
- Prudent working capital management along with substantial realization of receivables on a sustained basis, improving liquidity of the company.
- Improvement in total debt/GCA < 5 times on a sustained basis.



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Downward Factors

- Deterioration in revenue and profitability, resulting in lower-than expected cash accruals.
- Stretch in working capital cycle leading to deterioration of the liquidity position of the company.
- Deterioration in the capital structure impacting the debt protection metrics of the company.

List of Key Rating Drivers with Detailed Description

A. 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 industry. The other promoters, Mr. Vishal Shahaji Jagdale has more than 20 years of experience and Mr. Vikas Shahaji Jagdale has 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.

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 FY23, the company's total operating income declined by 9.74% to Rs. 261.23 crore vis-à-vis Rs. 287.45 crore in FY22. The decline in operating income was on account of lower EPC contract income. However, in FY24 (Unaudited) the company has reported total operating income of Rs. 319.04 crore an increase of 22.13% over FY23.

B. Key Rating Weaknesses

Moderate profitability

The absolute EBITDA and PAT had reduced to Rs. 35.49 crore and Rs. 1.12 crore in FY23 from Rs. 39.97 crore and Rs. 3.13 crore in FY22, respectively due to reduction in the total operating and non-operating income. However, the EBITDA margins continue to be at similar level at 13.59% in FY23 (PY FY22: 13.91%). PAT margins declined to 0.43% (PY FY22: 1.07%) in FY23. In FY24 (Unaudited), the absolute EBITDA and PAT stood at Rs. 43.34 crore



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and Rs. 6.23 crore, respectively. The EBITDA margin stood at 13.58% and PAT margin stood at 1.95% in FY24 (Unaudited).

Moderately leveraged capital structure with weak debt coverage indicators

The financial risk profile of SEL is marked by moderately leveraged capital structure and weak debt coverage indicators. The overall gearing ratio and TOL/TNW including quasi equity were at 1.05x and 1.44x respectively as on March 31, 2023, as against 1.20x and 1.71x respectively as on March 31, 2022, primarily due to repayment in term loan and accretion of profit to reserves. Further, the interest coverage ratio and total debt to GCA ratio continue to be weak at 1.02x (PY: 1.00x) and 71.25x (PY: 60.10x) respectively in FY23.

Working capital-intensive nature of operations

Operations of SEL are working capital intensive and marked by high collection period of 506 days as on March 31, 2023. The receivables are high mainly because of receivables stuck on account of EPC contracts executed by the company in the past. Also SEL's clients include public sector or state and central government entities, payments from whom are generally delayed. The company has realised Rs. 31.63 crores of stuck receivables in FY24. The average fund based utilisation stood at 82.91% for the last 12 months ended February 2024. Timely realisation of receivables will be a key rating monitorable. 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.

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:

[Criteria of assigning Rating Outlook](#)

[Rating Methodology for Manufacturing Companies](#)

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

[Criteria on Default Recognition](#)

Liquidity: Stretched

The company had gross cash accruals of Rs. 9.27 crore in FY24 (unaudited) as against debt repayment obligation of Rs. 14.56 crore in FY24. However, the company recovered Rs. 31.63 crore and Rs. 19.82 crore from old receivables in FY23 & FY24 respectively, which was used to meet repayment obligations. The company took GECL loans in FY22 to improve the cash flows as the old receivables were stuck. The company is expected to have adequate gross cash accruals against the debt repayment of Rs. 20.77 crore in FY25, Rs. 20.48 in FY26 and Rs. 8.16 crore in FY27. Further, recovery of old debtors will support liquidity. The company has cash balance of Rs. 26.63 crore as on February 29, 2024.

About the company

Shreem Electric Limited (SEL) was incorporated on January 2, 1976, in the name of Shreem Capacitors Private Limited. Later in December 2009 the company was renamed to Shreem Electric Private Limited. Further 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 centre is located at Jaysingpur, District Kolhapur.

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



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Financials (Standalone):

	(Rs. crore)	
For the year ended / As On*	31-03-2022 (Audited)	31-03-2023 (Audited)
Total Operating Income	287.45	261.23
EBITDA	39.97	35.49
PAT	3.13	1.12
Total Debt	287.26	248.45
Tangible Net worth	232.02	230.40
Ratios		
EBITDA Margin (%)	13.91	13.59
PAT Margin (%)	1.07	0.43
Overall Gearing Ratio (x)	1.27	1.11

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: The rating continues to remain under ISSUER NOT COOPERATING category from CARE Rating as per press release dated March 20, 2023, due to unavailability of information for monitoring of rating.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1.	Bank Facilities – Fund Based-Term Loan	Long Term	57.21	IVR BB+/Stable	-	-	-
2.	Bank Facilities – Fund Based-Cash Credit	Long Term	170.68	IVR BB+/Stable	(February 23, 2024) IVR BB/ Negative; ISSUER NOT COOPERATING	(January 20, 2023) IVR BB+/Stable	-
3.	Bank Facilities – Non-Fund Based-Letter of Credit	Long Term	94.50	IVR A4+	(February 23, 2024) IVR A4; ISSUER NOT COOPERATING	(January 20, 2023) IVR A4+	-
4.	Bank Facilities – Non-Fund Based-Bank Guarantee	Short Term	114.50	IVR A4+	(February 23, 2024) IVR A4; ISSUER NOT COOPERATING	(January 20, 2023) IVR A4+	-



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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

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assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength 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	-	-	-	170.68	IVR BB+/ Stable
Term Loan	-	-	March 2028	15.27	IVR BB+/ Stable
Term Loan	-	-	March 2029	41.94	IVR BB+/ Stable
Letter of Credit	-	-	-	94.50	IVR A4+
Bank Guarantee	-	-	-	114.50	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/len-Shreem-may24.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 on the basis of complexity and a note thereon is available at www.infomerics.com.