Press Release

Stelmec Limited

June 24, 2024

Ratings

Instrument Facility	Amount (Rs. Crore)	Current Ratings	Previous Rating	Rating Action	Complexity Indicator
Long term Bank Facilities	53.00	IVR BBB+/ Stable (IVR Triple B Plus with Stable outlook)	IVR BBB+/ Stable (IVR Triple B Plus with Stable outlook)	Re-affirmed	Simple
Short Term bank Facilities	286.00	IVR A2 (IVR Single A Two)	IVR A2 (IVR Single A Two)	Re-affirmed	Simple
Total	**339.00**	**Rupees Three Hundred and Thirty Nine Crore Only**			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has re-affirmed the long/Short Term rating to IVR BBB+ with a Stable outlook & IVR A2 for the bank loan facilities of Stelmec Limited.

The re-affirmation of the rating to the bank facilities of Stelmec Limited continues to derive comfort from the established track record of operations and experienced management, reputed clientele, healthy order book, continuous funding support from promoters and improved financial risk profile during FY2024 (Prov) (refers to period April 01, 2023 to March 31 2024). However, these strengths are partially offset by tender based nature of business and susceptibility of operating margin to volatile input prices & high average collection period and long outstanding debtors.

The stable outlook indicates a low likelihood of rating change in the medium term. IVR believes that the stelmec Limited business & financials risk profile will be maintained over the over the medium term considering the overall risk profile of the company.

IVR has principally relied on the standalone audited financial results of Stelemec Limited up to FY23(A) & FY24(P) and Two years projected financials till FY26, and publicly available information/ clarifications provided by the company’s management.

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations with TOI above Rs. 1,100.00 crore and EBITDA margins.
- Improvement in debt protection metrics.
- Sustenance of the overall gearing.

Downward Factors

- Significant reduction in the scale of operations and profitability margins,
- Deterioration in debt protection metrics and overall gearing
- Low orders inflow or delay in execution of projects.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

The promoters of the company have an experience of over three decades in the electrical equipment manufacturing business which has enabled them to establish healthy relationships with its suppliers and clientele. Mr. Hamza Arsiwala (Managing Director) is at the helm of affairs of the company and looks after the overall operations of the company. He is well supported by the other directors and a team of experienced and qualified professional in managing the day-to-day affairs of the company.

Reputed clientele

The company has a diversified and established customer base comprising of Jaipur Vidyut Vitran Nigam Limited, BSES, JSW Renewables & major State Electricity Boards and transmission companies of various state Governments. Reputed customer base reduces counter party payment risk to a certain extent.

Diversified product profile and established sales network

Stelmec has three manufacturing facilities across Ahmedabad, Mumbai such as MV switchgears comprising of Indoor VCB Panels, Outdoor VCB Kiosks & Outdoor VCBs, HV & EHV Disconnectors, LV and HV Switchgears, Relay Panels, Bus Ducts etc. which reduces dependency of single product segment. Besides, Stelmec has Pan India presence through its established network of branch offices in most of the major States which enables it to generate geographically diversified revenue.

Improvement in financial performance in FY2023 and in FY2024(P)

The operating income of the company has remained constant in FY23 to Rs. 662.13 Crore against Rs. 649.93 as on March 22, however the operating income significantly jump to Rs. 889.01 Crore as on March 2024(P) due to launch of the National Electricity Plan in India appears to have been a pivotal factor in driving this growth. With the aim of making electricity accessible to all households within the next five years, there has been a surge in demand for electricity, prompting governments to modernize their power stations with advanced technology. This increased demand has likely provided the company with new opportunities for business expansion with increase in TOI, EBITDA margin increased from 4.27% in FY2023 to 5.39% in FY2024 (P) as Company is making smart strategic decisions to enhance its profitability by focusing on contracts with higher-margin values, they're prioritizing projects that offer better margin from the new projects. Consequently, the PAT margin also increased from 1.49% in FY2023 to 2.53% in FY2024(P). Further, The Company's ability to sustain the growth in top line without compromising in margins will be a key rating monitorable going forward.

Comfortable capital structure coupled with improvement in debt coverage indicators in FY2024(P)

The capital structure of the company remained comfortable over the past three account closing dates. The overall gearing ratio improved and remained comfortable at 0.41x as on March 31, 2024(P) against 0.78x as on March 31, 2023, driven by healthy accretion of profits to net worth. Further, with increase in profits, the debt protection metrics also improved with interest coverage ratio at 2.70x (1.82x in FY2023) in FY24(P) and total debt to GCA at 2.09x (7.61x in FY2023) as on March 31, 2024(P).

Key Rating Weaknesses

Large working capital requirement:

Operations remained working capital intensive, led by large receivables of 133 days in FY 2024(P) (172 days in 2023). Average Inventory holding period was 47 days (45 days in 2023). However, the company was able to keep the operating cycle to 49 days (69 days in 2023). This is on account of the long-standing relationship with suppliers which allows them to match payables as per their gross working capital days. The payable days stood at 130 days in FY24(P) (FY23: 148 days). IVR believes the company's operations will remain working capital intensive over the medium term.

Intense Competition keeping the profitability at modest level: Tender-based contract awarding system for government contracts along with the industry being highly fragmented and competitive, keep the profitability margins range bound. Operating margin was modest at 5.39% in FY24(P) (FY23: 4.27%). This risk would be offset to a certain extent as the company is planning to grow its export business and are in the process of developing new, higher margin products.

Analytical Approach: Standalone

Applicable Criteria :

Rating Methodology for Manufacturing entities
Financial Ratios & Interpretation Non- Financial Sector
Criteria for assigning rating outlook
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The liquidity profile of the company is expected to remain adequate in the near to medium term on the back of its expected sufficient cash accruals vis-à-vis its debt repayment obligations of Rs. 3.69 crore – Rs. 1.00 Crore during FY2024-FY2027. Stelmec earned gross cash accruals of Rs.24.98 crore – Rs. 41.78 Crore from FY24 – FY27. Overall gearing ratio was comfortable at 0.41x as on March 31, 2024, indicating a sufficient gearing headroom. However, the average utilisation of fund-based limits remained moderate at ~88.90% during the last twelve months ended March, 2024 indicating a moderate cushion. Further, Stelmec had unencumbered cash and cash equivalent of Rs.9.92 crore as on 31st March 2024(P)

About the Company

Stelmec Limited (STL) was incorporated on 29th February 2000 as Stelmec (India) Pvt Limited in Mumbai and subsequently in August 2005 the name was changed to Stelmec Private Limited and again on July 17, 2007 got itself converted into a limited company and since then is known as Stelmec Limited. It has also taken over its associated concern namely Stelmec Switchgear in 2005. Stelmec Limited is engaged into manufacturing products such as MV switchgears comprising of Indoor VCB Panels, Outdoor VCB Kiosks & Outdoor VCBs, LV Switchgears comprising of Distribution panels, Control & Relay Panels. Bus Ducts etc. STL has three manufacturing units; one in Gujarat and two in Thane (Maharashtra).

Financials (Standalone):

(Rs. crore)

For the year ended* As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	649.93	662.13
EBITDA	26.27	28.25
PAT	9.56	9.52
Total Debt	54.98	90.30
Tangible Net worth*	118.08	127.90
EBITDA Margin (%)	4.04	4.27
PAT Margin (%)	1.46	1.49
Overall Gearing Ratio (x)	0.55x	0.78x
ISCR (x)	1.87x	1.82x

**as per Infomerics standards*

Status of non-cooperation with previous CRA : Brickwork Ratings has continued the rating under INC vide Press release dated May 20, 2024 due to Non submission of information.

Any other information: : Nil

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (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 : April 26, 2023	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1	Cash Credit	Long Term	53.00	IVR BBB+/ Stable (IVR Triple B Plus with Stable outlook)	IVR BBB+/ Stable (IVR Triple B Plus with Stable outlook)	-	-
2.	BULC	Short Term	6.00	IVR A2 (IVR Single A Two)	IVR A2 (IVR Single A Two)	-	-
2	Bank Guarantee	Short Term	280.00	IVR A2 (IVR Single A Two)	IVR A2 (IVR Single A Two)	-	-

Name and Contact Details of the Rating Analyst:

Name: Mr. Om Prakash Jain

Tel: (011) 45579024

Email: opjain@infomerics.com

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.

Press Release

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

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit			-	53.00	IVR BBB+/ Stable (IVR Triple B Plus with Stable outlook)
Short Term Bank Facilities – BULC			-	6.00	IVR A2 (IVR Single A Two)
Short Term Bank Facilities – Bank Guarantee			-	280.00	IVR A2 (IVR Single A Two)

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

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-stelmec-june24.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