Press Release

Stelmec Limited

April 26, 2023

Ratings

Instrument Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long term Bank Facilities –	53.00	IVR BBB+ with Stable Outlook (IVR Triple B Plus With Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	286.00	IVR A2 (IVR A Two)	Assigned	Simple
Total	**339.00 (Rupees Three Hundred and Thirty Nine Crores Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

Informerics Valuation and Rating Private Limited (IVR) has assigned long-term rating of IVR BBB+ with a Stable outlook and short-term rating of IVR A2 for the bank loan facilities of Stelmec Limited .

The rating draws 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 FY2022 (Audited). 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.

IVR has principally relied on the standalone audited financial results of Stelmec up to 31 March 2022, 9MFY2023 provisional results and projected financials for FY2023, FY2024 and FY2025, and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations and EBITDA margins.
- Improvement in debt protection metrics
- Sustenance of the gearing below 0.50x

Downward Factors

- Significant reduction in the scale of operations and profitability margins
- Deterioration in debt protection metrics and overall gearing

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 FY2022 and in 9MFY23

The operating income of the company remained erratic over the past three fiscals. Stelmec revenue was marginally affected in FY2021 due to the impact of the COVID 19 pandemic and consequent lockdown restrictions. However, with improvement in covid scenario, the company was operational during the entire financial year in FY2022 and reported a year-on-year growth of ~15.43% in its total operating income (TOI) from Rs.561.40 crore in FY2021 to Rs.649.92 crore in FY2022 backed by increased demand. With increase in TOI, EBITDA margin marginally decreased from 4.26% in FY2021 to 4.04% in FY2022 which was although supported by increase in sales realisation coupled with increase in overhead costs. Consequently, the PAT margin also decreased from 1.80% in FY2021 to 1.47% in FY2022. Further, Stelmec achieved a TOI of Rs.462.35 crore during 9MFY23 as against a TOI of Rs.411.71 crore during 9MFY22 on the back of increase in the demand for meters and other electrical equipment manufactured by the company. 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 FY2022

The capital structure of the company remained comfortable over the past three account closing dates. The overall gearing ratio improved and remained comfortable at 0.40x as on March 31, 2022, against 0.53x as on March 31, 2021 (considering subordinated unsecured loan of Rs. 10.00 crore as a part of tangible net worth) 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 3.50x (3.35x in FY2021) in FY22 and total debt to GCA at 4.42x (5.16x in FY2021) as on March 31, 2022

Key Rating Weaknesses

Large working capital requirement :

Operations remained working capital intensive, led by large receivables of 163 days in FY22 (A) (FY21: 172 days) coupled with inventory holding period of 42 days in FY22 (FY21: 53 days). However, the company was able to keep the operating cycle at 55 days in FY22 (FY21: 53 days). 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 149 days in FY22 (FY21: 171 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 4.04% in FY22(A) (FY21: 4.26%). 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 Methodologies for Manufacturing Entities
Financial Ratios & Interpretation Non- Financial Sector
Criteria for assigning rating outlook

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.12.41 – 2.72 crore during FY2023-FY2025. Stelmec earned gross cash accruals of Rs.16.32 crore in FY23. Overall gearing ratio was comfortable at 0.52x as on March 31, 2022 indicating a sufficient gearing headroom. However, the average utilisation of fund based limits remained moderate at ~67.60% during the last twelve months ended Feb, 2023 indicating a moderate cushion. Further, Stelmec had unencumbered cash and cash equivalent of Rs.10.44 crore as on Feb 28, 2023.

About the Company

Stelmec Limited (STL) was incorporated on 29th February 2000 as Stelmec (India) Pvt Limited in Mumbai. In August 2005 the name was changed to Stelmec Pvt Limited. The company on July 17, 2007 got itself converted into a limited company and since then is known as Stelmec Limited. STL also took over one of its associate concerns, a partnership firm, Stelmec switchgear in 2005. STL is an ISO 9001:2008 certified organization manufacturing circuit breakers from 1.1 KV to 33KV class. The company is a member of Indian Electrical & Electronics Manufacturers Association (IEEMA). The company has 7-8 branches and 15 area representatives throughout the country that caters to the marketing and distribution activities.

Financials (Standalone):

(Rs. crore)

For the year ended* As on	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	561.40	649.92
EBITDA	23.92	26.28
PAT	10.17	9.58
Total Debt	63.14	51.78
Tangible Net worth*	108.63	118.07
EBITDA Margin (%)	4.26%	4.04%
PAT Margin (%)	1.80%	1.47%
Overall Gearing Ratio (x)	0.67x	0.52x

**as per Infomerics standards*

Status of non-cooperation with previous CRA : Not Applicable

Any other information: Nil

Rating History for last three years:

Sl. No.	Name of Instrument / Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount Outstanding (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 – Fund Based	Long Term	53.00	IVR BBB+ with Stable Outlook (IVR Triple B Plus With Stable Outlook)	-	-	-
2.	BULC – Fund Based	Short Term	6.00	IVR A2 (IVR A Two)	-	-	-
3	LC/BG – Non Fund Based	Short Term	280.00	IVR A2 (IVR A Two)	-	-	-

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About Infomerics:

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.

For more information visit www.infomerics.com

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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
Long term Bank Facilities – Cash Credit	-	-	-	53.00	IVR BBB+ with Stable Outlook (IVR Triple B Plus With Stable Outlook)
Short term Bank Facilities – BULC				6.00	IVR A2 (IVR A Two)
Short term Bank Facilities – LC/BG				280.00	IVR A2 (IVR 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-apr23.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