

Press Release

SVR Electricals Private Ltd.

January 23, 2018

Rating

Instrument / Facility	Amount	Rating	Rating Action
Long term Bank Facilities	Rs.7.25 crores	IVR BB- with Stable Outlook (IVR Double B Minus with Stable Outlook)	Assigned
Long/Short term Bank Facilities	Rs.18.75 crores	IVR BB- with Stable Outlook/IVR A4 (IVR Double B Minus with Stable Outlook/IVR A Four)	Assigned
Short term Bank Facilities	Rs.1.00 crore	IVR A4 (IVR A Four)	Assigned
Total	Rs.27.00 crores		

Details of Facility are in Annexure 1

Detailed Rationale

The ratings are constrained by low profitability, moderate gearing and weak debt protection metrics, instances of overdrawal of working capital limits in the past year, customer and geographic concentration, small scale of operations and competitive nature of the industry. However, the ratings derive comfort from the experience of promoters and long track record. Profitability, gearing and managing working capital requirements are the key rating sensitivities.

List of Key Rating Drivers

- Low profitability
- Moderate gearing and debt protection metrics
- Overdrawal of working capital facility
- Customer and geographic concentration
- Small scale of operations
- Competitive nature of the industry
- Experienced promoter with long track record

Detailed Description of Key Rating Drivers

Key Rating Weaknesses:

Low profitability

SVR Electricals Private Ltd. (SVR) exhibited very low PAT margin of 0.8% in FY17 (Previous year – 0.5%). It is an indication that the entities are facing intense competition and are unable to pass on the costs effectively to the clients.

Moderate gearing and debt protection metrics

The gearing ratio for SVR stood at 0.5x as on March 31, 2017 (1.5x as on March 31, 2016). But, the utilisation of the cash credit (CC) facility has increased in Q3FY18. The CC limit to Net Worth was 1.5x and CC limit to GCA was very high at 23.4x, as on March 31, 2017. The interest coverage remained moderate at 1.3x as on March 31, 2017 (1.3x as on March 31, 2016).

Overdrawal of working capital facility

There were three instances of overdrawals in the last one year (till December 31, 2017) for the CC facility. The average utilisation was also high for the Q3FY18, implying that the liquidity position of the entity is stretched.

Customer and geographic concentration

The production facility of SVR is located in Guntur, Andhra Pradesh. The production floor space is shared with its sister concern Vijay Transformers. The company's clientele is comprised almost entirely of the State Electricity Boards (SEBs) of Andhra Pradesh and Telangana, indicating high customer and geographic concentration.

Small scale of operations

The scale of operations for SVR is small given that the total operating income for FY17 stood at Rs.26.3 crores. The company generated PAT of Rs.0.1 crore for the year.

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

Key Rating Strengths

Experienced promoter with long track record

The day to day activities of both SVR are managed by Mr. Venkateswara Rao Madala. He is qualified as an Electrical Engineer. He began his career as an engineer and after a gaining experience of around four years, set up SVR Electricals Pvt Ltd as a service provider for distribution transformers. Subsequently, he ventured into manufacturing of transformers, having gauged the demand and market dynamics and also set up M/s. Vijay Transformers which is also engaged in the same business.

The factory premises is situated in Guntur, Andhra Pradesh, with a shop floor of 45000-50000 sq. ft. The total manufacturing capacity is 24000 units (capacity estimated basis manufacture of 25 kVA transformers).

Analytical Approach & Applicable Criteria

Rating Methodology for Trading Companies

Financial Ratios & Interpretation – non-financial companies

About the Company

SVR Electricals Private Ltd (SVR) was set up as a service provider for distribution transformers and later ventured into manufacturing of transformers in 1992. It manufacture a range of distribution transformers with capacity up to 1600 kVA. The manufacturing facility is situated in Guntur, Andhra Pradesh, with a shop floor of 45000-50000 sq. ft, which is shared with its sister concern Vijay Transformers.

Financials (Standalone)

(Rs. Crores)

For the year ended / Rs. Crs	31-03-2016	31-03-2017
	Audited	Audited
Total Operating Income	31.1	26.3
EBITDA	1.3	1.2
Interest	1.0	0.9
PAT	0.1	0.1
Total Debt	7.0	2.4
Tangible Net worth	4.6	4.8
<u>Ratios</u>		
a. EBIDTA Margin	4.2	4.5
b. PAT Margin	0.3	0.5
c. Overall Gearing ratio	1.5	0.5

Status of non-cooperation with previous CRA: ICRA has moved the rating of SVR to the ‘ISSUER NOT COOPERATING’ category due to non-submission of monthly ‘No Default Statement’ (“NDS”) as per Press Release dated November 15, 2017.

Any other information: Nil

Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Long Term Bank Facility - CC Facility	Long Term	7.25	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook)	--	--	--
2.	Long Term / Short Term Non-Fund Based	Long Term / Short	18.75	IVR BB-/Stable Outlook	--	--	--

	Limits - Bank Guarantee	Term		(IVR Double B Minus with Stable Outlook) and IVR A4 (IVR A Four)			
3.	Short Term Non-Fund Based Limits – Letter of Credit	Short Term	1.00	IVR A4 (IVR A Four)			

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.

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About Infomerics:

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Annexure 1: Details of Facility

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility(Rs. Crores)	Rating Assigned/ Outlook
CC Facility	-	-	-	7.25	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook)
Bank Guarantee	-	-	-	18.75	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook) and IVR A4 (IVR A Four)
Letter of Credit	-	-	-	1.00	IVR A4 (IVR A Four)