

Press Release

Surendra Electricals Private Limited

October 24, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs. 23.00 crore (Enhanced from Rs. 22 crore)
Long Term Rating	ACUITE BB- / Outlook: Stable (Upgraded)
Short Term Rating	ACUITE A4+ (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB-** (read as ACUITE double B minus) from '**ACUITE B+** (read as ACUITE B plus) on the Rs. 14.00 crore bank facilities of Surendra Electricals Private Limited (SEPL). The outlook is '**Stable**'.

Further, Acuité has also upgraded the short term rating to '**ACUITE A4+** (read as ACUITE A4 plus) from '**ACUITE A4** (read as ACUITE A4) on the Rs. 9.00 crore bank facilities of Surendra Electricals Private Limited (SEPL).

The upgrade in the rating is on account of increase in the revenue to Rs. 65.14 crore in FY 2019 (Provisional) from Rs. 18.18 crore in FY2018 due to shift in focus from trading to undertaking turnkey projects, improvement in financial risk profile and efficiency in the working capital management which is reflected by GCA days of 97 days in FY2019 (Provisional) as against of 612 days in FY2018.

Incorporated in 2005, Surendra Electricals Private Limited (SEPL) is a Delhi based company promoted by Mr. Amit Gadia, Mr. Manish Gadia, Mr. Varun Kr. Gadia and Mrs. Richa Gadia. Initially, the company started with the manufacturing of low tension electric control panels and bus ducts. Later in the year 2010, the company started the installation of the same. Further, in the year 2013, the company is engaged in the laying of transmission lines and setting up substations through bidding tenders in state of Rajasthan. The company was more focused towards the trading of electrical components till last year but now the company is majorly focusing on the turnkey projects which can be witnessed with the increase in the revenue from the execution of turnkey projects of about Rs. 59.80 crore in FY2019 (Provisional) as against to Rs. 0.04 crore in FY2018. The company has reputed list of clients including state run power companies such as Jodhpur Vidyut Vitran Nigam Limited (JVVNL), Ajmer Vidyut Vitran Nigam Limited (AVVNL) and Indian Oil Corporation Limited (IOCL) to name a few. Now, the company has turned out to be a leading Turnkey MEP work contractor for composite Contracts (Mechanical-Electrical-Plumbing).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Surendra Electricals Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

SEPL, incorporated in 2005 is a Delhi based company. The promoters Mr. Amit Gadia, Mr. Manish Gadia,

Mr. Varun Kr. Gadia and Mrs. Richa Gadia have over a decade of experience in the power transmission industry.

The company has a reputed list of clients including state-run power companies such as Jodhpur Vidyut Vitran Nigam Limited (JVNL), Ajmer Vidyut Vitran Nigam Limited (AVNL), Indian Oil Corporation Limited (IOCL) to name a few. SEPL has an unexecuted order book of Rs. 62.00 crore which provides the revenue visibility in the near term.

Acuité believes that SEPL will continue to benefit from its long track record of operations and experienced management.

- **Healthy growth in revenue**

SEPL's revenue increased to Rs. 65.14 crore in FY2019 (Provisional) to Rs. 18.18 crore in FY2018. The increase in revenue is primarily due to hand-on projects that the company got through bidding for government tenders. Now, the company majorly generates revenue from the turnkey projects which can be significantly witnessed with an increment in the revenue from Rs. 0.04 crore in FY2018 to Rs. 59.88 crore in FY2019 (Provisional) from the turnkey projects.

- **Healthy financial risk profile**

SEPL financial risk profile is healthy, marked by a moderate net worth, low gearing and healthy debt protection metrics.

SEPL's net worth is moderate estimated at around Rs.6.65 crores as on March 31, 2019 (Provisional) as against of Rs. 5.44 crore in FY2018. The net worth levels have seen significant improvement over the last three years through FY 2019 on account of equity infusion of Rs.3.80 crore by the promoters and healthy accretion to reserves during the same period.

The company has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 1.27 and 3.33 times as on March 31, 2017. The leverage levels continue to remain have marginally deteriorated to around 0.45 times as on March 31, 2019. SEPL's moderate cash accruals to the tune of about Rs. 0.78 crores have supported in minimizing the reliance on external debt lead to healthy gearing and debt levels of 0.45 times and Rs. 2.99 crores as on March 31, 2019. SEPL's cash accruals over the next two years through 2022 are estimated to remain in the range of Rs. 1.76 crores to Rs. 2.09 crore against no significant repayment obligations during the same period.

- **Efficient Working Capital Management**

SEPL's working capital is efficiently managed as reflected by its gross current asset (GCA) days of around 97 days estimated as on March 31, 2019 (Provisional). The company maintains inventory of just 46 days as the work in process cycle time is low. SEPL extends a credit period of around 95 days to its customers and realizes payments within 43 days. SEPL's working capital limits over the last twelve months period through August 2019 was utilized at an average of 95 per cent.

Acuité expects the working capital management to remain efficient over the medium term on account of the lean inventory levels maintained by the company and limited credit period extended to its customers.

Weaknesses

- **Modest scale of operations and customer concentration**

The operations of the company are moderate despite the company being in the line of business for more than a decade. The company generates its revenue primarily from the turnkey projects. The revenue stood at Rs. 65.14 crore for FY2019 (Provisional) as compared to Rs. 18.18 crore for FY2018. Acuité believes that customer concentration risk will be a key rating sensitivity.

- **Highly competitive and fragmented nature of industry**

The company is operating in a highly competitive and fragmented industry with large number of

organized and unorganized players present in the market which limits the bargaining power of the company. However the risk is mitigated to an extent on account of established track record of operations, experienced management.

Rating sensitivity factor

- Deterioration in working capital management to ~130 days.
- Decline in revenue profile by more than 25 per cent.
- Deterioration in financial risk profile

Material Covenants

None

Liquidity position

The company has healthy liquidity marked by improved net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 0.78 crore for FY2019 (Provisional). The cash accruals of the company is estimated to remain around Rs. 1.76 crore to Rs. 2.09 crore during 2020-22 against no significant repayment obligations during the same period. The company's working capital operations is efficient which is marked by gross current asset (GCA) days of 97 days for FY2019 (Provisional). The company maintains unencumbered cash and bank balances of Rs. 1.11 crore as on 31 March 2019 (Provisional). The current ratio stands at 1.02 times as on 31 March 2019 (Provisional). Acuité believes that the liquidity of the company is likely to remain healthy over the medium term on account of increase in cash accrual against moderate debt repayments over the medium term.

Outlook: Stable

Acuité believes that SEPL will continue to benefit over the medium term due to its long track record of operations, experienced management and established relations with its customers. The outlook may be revised to "Positive", if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while improving its capital structure through equity infusion. Conversely, the outlook may be revised to "Negative", if company's generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	65.14	18.18	11.85
EBITDA	Rs. Cr.	2.67	1.06	0.92
PAT	Rs. Cr.	0.73	0.12	0.09
EBITDA Margin	(%)	4.10	5.85	7.73
PAT Margin	(%)	1.12	0.65	0.77
ROCE	(%)	30.75	15.91	14.05
Total Debt/Tangible Net Worth	Times	0.45	0.60	1.27
PBDIT/Interest	Times	1.56	1.26	1.25
Total Debt/PBDIT	Times	1.05	2.71	3.15
Gross Current Assets (Days)	Days	97	612	280

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Service Entities- <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Up to last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
January 03, 2019	Cash Credit	Long Term	3.00	ACUITE B+/Stable (Reaffirmed)
	Bank Guarantee	Short Term	5.00	ACUITE A4 (Reaffirmed)
	Letter of Credit	Short Term	4.00	ACUITE A4 (Reaffirmed)
	Proposed Bank Facility	Long Term	10.00	ACUITE B+/Stable (Reaffirmed)
July 25, 2018	Cash Credit	Long Term	3.00	ACUITE B+ (Indicative)
	Bank Guarantee	Short Term	4.00	ACUITE A4 (Indicative)
	Letter of Credit	Short Term	2.00	ACUITE A4 (Indicative)
	Proposed Bank Facility	Long Term	13.00	ACUITE B+ (Indicative)
May 13, 2017	Cash Credit	Long Term	3.00	ACUITE B+/Stable (Assigned)

	Bank Guarantee	Short Term	4.00	ACUITE A4 (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A4 (Assigned)
	Proposed Bank Facility	Long Term	13.00	ACUITE B+/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB-/ Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Upgraded)
Inland Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4+ (Upgraded)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	11.00 (Enhanced from Rs. 10.00 cr.)	ACUITE BB-/ Stable (Upgraded)

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Kumar Abhisek Ratings Analyst - Rating Operations Tel: 011-49731308 kumar.abhisek@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.