

Press Release

Supreme Power Equipment Private Limited

November 14, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 19.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 19.00 crore bank facilities of Supreme Power Equipment Private Limited. The outlook is '**Stable**'.

Incorporated in 2005, Supreme Power Equipment Private Limited (SPEPL) is engaged in the business of manufacturing of power and distribution transformers, windmill transformers and various special application transformers. Its customer profile includes Tamil Nadu Generation and Distribution Corporation Ltd (TANGEDCO) and Tamil Nadu Transmission Corporation Ltd (TANTRANSCO), Vestas Wind Technology India Private Limited, Siemens Gamesa Renewable Power Private Limited among others; its manufacturing facility is located near Chennai (Tamil Nadu). The company is promoted by Mr. Vee Rajmohan and Mr. K V Pradeep, who have been in the business of transformer manufacturing since 2000. SPEPL is an ISO 9001: 2008 certified company.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SPEPL to arrive at this rating

Key Rating Drivers

Strengths

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

SPEPL was established in 2005 and has been involved in the business of manufacturing transformers. The promoters of SPEPL Mr. Vee Rajmohan and Mr. K V Pradeep have two decades of experience in the transformer industry; which helped in establishing healthy relations with several suppliers and customers as is demonstrated by repeat business orders and supplies. SPEPL works with both Government as well as Private clients across the segments of industrial, residential and renewable segment; and its major clientele include TANGEDCO and TANTRANSCO, Confidence Electrical Company, Oman Transformer & Switchgear LLC, Siemens Gamesa Renewable Power Private Limited among others.

As on September 2018, the company has an unexecuted order book of Rs.56.28 crore which would provide revenue visibility over the next 10 months. The company has reported revenue of Rs.30.54 Crs in FY2018 as against Rs.27.96 Crs in FY2017. The growth is as a result of continuous order inflow from the government agencies. Acuité believes that SPEPL enjoys the benefit of the promoter's experience and continuous order inflows to improve the business risk profile over the medium term.

- **Average financial risk profile**

The financial risk profile of the SPEPL is average marked by healthy gearing (debt-to-equity), moderate debt protection metrics though constrained by high total outside liabilities to total net worth (TOL/TNW). Its gearing is healthy at 0.52 times as on March 31, 2018 against 0.40 times in FY2017. TOL/TNW is high at 2.92 times as of March 31, 2018 (1.89 times in FY2017), due to working capital intensive operations lead by bank debt and trade payables. SPEPL's networth is modest at Rs.5.68 crore as on March 2018. Its debt protection metrics are moderate: interest coverage ratio (ICR) at 1.56 times and net cash accruals to total debt (NCA/TD) of about 0.21 times in FY2018. ACUITE believes that the financial profile of SPEPL is expected to be at similar levels over the medium term in absence of significant debt-funded capex plans and modest scale of operations and accruals.

Weaknesses

- **Intense working capital operations**

SPEPL has intense working capital operations as evident from gross current assets (GCA) days of 200 as on March 31, 2018 as against 152 days as on March 31, 2017. The high GCA days were mainly due to high inventory and high debtor levels. The inventory days are high at 113 in FY2018, majorly in the form of work-in-progress; high to ensure regular supplies in bulk to the Govt on demand, manufacturing time involved. The entity's debtor days stood at 62 days as on March 31 2018 due to supplies to Government Departments and high amount of sales in the last quarter. To augment the working capital requirement, it avails moderate credit of about 60 days from its creditors. Moderate support from the creditors and average receivable period of about two months resulted in high utilization of working capital limits at about 86 per cent over the past six months through September 2018. Acuité believes that with improving scale of revenues, the working capital requirements are expected to increase though partly supported by moderate cash accruals and absence of capex plans over the medium term.

- **High customer concentration risk**

TANGEDCO and TANTRANSCO remain the major customers of SPEPL, contributing to about 60% of its revenues. Further, more than 99 per cent of its entire order book of Rs.55.38 crores, as of September 2018 is from TANGEDCO and (TANTRANSCO). High customer concentration risk accentuates the impact of any order volatility, delays in receivables on time, revenue growth and accruals.

Outlook: Stable

Acuité believes that the outlook on SPEPL will remain 'Stable' over the medium term on account of the experience of the management. The outlook may be revised to 'Positive' in case of significant improvement in revenues while sustaining the profitability and improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	30.54	27.96	29.73
EBITDA	Rs. Cr.	2.06	1.80	1.63
PAT	Rs. Cr.	0.37	0.31	0.32
EBITDA Margin	(%)	6.73	6.42	5.49
PAT Margin	(%)	1.20	1.12	1.07
ROCE	(%)	23.04	24.22	52.07
Total Debt/Tangible Net Worth	Times	0.52	0.40	0.11
PBDIT/Interest	Times	1.56	1.62	1.75
Total Debt/PBDIT	Times	1.41	1.17	0.34
Gross Current Assets (Days)	Days	200	152	90

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*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	4.00	ACUITE B+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A4
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4

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About Acuité Ratings & Research:

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