December 16, 2022

Sudhir Power Projects Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term- Non-Fund-based Working Capital	142.5	119.5	[ICRA]A1+; Reaffirmed
Long-term- Non-Fund-based Working Capital	-	27.0	[ICRA]AA-(Stable); Reaffirmed
Long-term- Fund Based Working Capital	7.0	3.0	[ICRA]AA-(Stable); Reaffirmed
Interchangeable CC Limits	(17.01)	(17.01)	[ICRA]AA-(Stable); Reaffirmed
Total	**149.5**	**149.5**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Sudhir Power Projects Limited, Sudhir Sales and Services Limited[1], Sudhir Transformers Limited[1] and Sudhir Power Limited[1], given their strong business linkages as well as common management. Together, these are referred to as the Sudhir Group or the Group.

The rating action factors in the Sudhir Group's established position as one of the leading players in the diesel generator (DG) industry, supported by its long track record of operations, extensive experience of its promoters and competitive advantage by virtue of being one of three original equipment manufacturers (OEM) for diesel generator (DG) sets for Cummins India Limited (CIL; a leading manufacturer for DG set engines/alternators) in India. The Sudhir Group has an association of more than 45 years with CIL, with predefined geographical territories for sales of DG sets. Additionally, the Group is also involved into equipment leasing, after sales services and executing projects. With the revival in the capex cycle in various end-user industries coupled with strong growth in overseas equipment leasing business driven by both organic growth and a couple of acquisitions, the Group registered strong operating income (OI) growth of 53% in FY2022 over previous fiscal. The manufacturing/trading revenues rebounded in FY2022 from the adverse impacts of demand being curtailed owing to Covid-19 in FY021. Benefitting from the continued capex cycle in India as well as identified markets of UK and Middle East, the Group is expected to register healthy revenue growth in FY2023 as well. Additionally, the ratings continue to factor in the Group's comfortable financial profile and strong liquidity position, as demonstrated by steady internal accrual generation, healthy net worth, and sizeable cash and investments. This has also kept the Group's reliance on external debt low and allowed maintenance of strong debt coverage metrics.

However, the ratings are constrained by the intense competition in the industry and susceptibility of operations to the capex cycle for DG sets from its key end-user industries (real estate, telecom, hospitality, infrastructure, etc). While the demand from these sectors was subdued in last few fiscals till FY2021, the capex cycle picked up since FY2022. Additionally, demand for DG sets remains vulnerable to increasing demand for alternative power back-ups as the industry embraces cleaner fuel. The ratings also factor in the concentration risk as the Sudhir Group is reliant on a single vendor (i.e CIL) for the key components for DG sets. Nonetheless, ICRA notes that the Sudhir Group is one of the three OEMs for CIL and handles the key geographic territories, which make the relationship equally important for the latter. Further, with diversification of the product/service base, the

[1] *Rated [ICRA]AA-(stable)/[ICRA]A1+*

concentration has reduced to some extent in the recent years. However, the overseas leasing/rental business remains susceptible to cyclical downturn risks in the key end-user industries like infrastructure and Oil & Gas.

The Stable outlook reflects ICRA's expectation that the Sudhir Group will continue to benefit from its strong brand presence, its wide product/services portfolio and association with CIL; enabling the Group to sustain its healthy financials profile and liquidity position.

Key rating drivers and their description

Credit strengths

Established operational track record of Sudhir Group in DG set industry and diversification into overseas equipment rentals – The Group has an established operational track record in the DG set industry. While DG sets remain the key revenue generator over the years, the Group has developed a wide range of other products/services that cater to the power equipment industry (transformers, distribution panels, substations, etc), along with executing electrification/solar projects, after sales servicing for DG sets and equipment leasing (DG sets, aerial work platform, forklifts). Further, in addition to its operations in India, the Group ventured in equipment leasing business in the past three years in the Gulf countries and UK – which continue to be in the ramp up phase. As on date, the Group has a sizeable fleet of ~6500 equipment in the overseas leasing business, being operated out of 14 depots spreads across UK, UAE and Saudi Arabia, while its fleet size in India is ~1475 being serviced out of 5 depots.

Key OEM of CIL with strong presence in North and West India – The Sudhir Group is one of the three OEMs for CIL, with a long-standing business association of over 45 years. It has exclusive rights for selling DG sets based on CIL's technology/components in North India (Punjab, Haryana, Himachal Pradesh, Rajasthan, Jammu and Kashmir), Gujarat and Madhya Pradesh. The Group has developed a strong brand presence in these states, which is supported by a well-entrenched distribution network. Moreover, CIL's position among the leading players in the DG engines industry, with a dominant market share in the DG set market (especially for medium and high horse power categories), provides a competitive advantage to the Sudhir Group. However, predefined geographical territories limit the Group's DG set sales to these states, thereby constraining its ability to scale up the revenues from this segment to some extent.

Comfortable financial profile and liquidity position; healthy near-term demand outlook – The Group's liquidity and financial profile are healthy as indicated by steady internal accrual generation, sizeable net worth, healthy debt protection metrics, moderate repayment obligations in the overseas leasing business and considerable investments. Moreover, the Group's reliance on external debt for the Indian operations is limited. With, the revival in the capex cycle in various end-user industries coupled up steady growth in equipment leasing business, the Group registered strong operating income (OI) growth of 53% in FY2022 as compared to previous fiscal. While manufacturing/trading revenues rebounded in FY2022 from the adverse impacts of demand being curtailed owing to covid-19 in FY021, steady increase in overseas equipment rental business with both organic and inorganic business expansion also supported the Group's revenues and profits. Benefitting from growing capital investments in sectors such as manufacturing, construction, data centers, MRTS/RRTS, residential and commercial real estate, etc., the Group is expected to register healthy revenue growth in FY2023 as well.

Credit challenges

Intense competition in the industry – The DG set industry is highly fragmented and competitive in nature, given the presence of many regional players, especially in the low horse power category. Nevertheless, the Sudhir Group benefits to some extent because of its strong brand presence and established track record in the industry, supported by its long association with CIL.

Vendor concentration with high dependence on CIL – The Sudhir Group is dependent on CIL for sourcing its key component—diesel engines—for DG sets. Moreover, the geographical territories are defined by CIL, which limits market expansion.

Nonetheless, ICRA notes that the Sudhir Group is the largest OEM for CIL and handles the key geographical territories, which make the relationship equally important for CIL. Further, the dependence has reduced to some extent recently with diversification of the product/service base, especially with equipment leasing business.

Exposed to capex cycle of end-user industries as well as changes in regulations– The Group's operations remain susceptible to the capex cycle of its key end-user industries such as real estate, telecom, hospitality and infrastructure. While the demand for DG sets from these sectors was subdued over the last few fiscals, recently the same has started picking up with revival of the capex cycle. Thus, with likely growth in revenues from DG sets, coupled up steady growth in the equipment leasing business, the Group is expected to register healthy revenue growth in the current fiscal on a YoY basis. Implementation of new CPCB-4 norms (Central Pollution Control Board) July-2023 onwards is expected to lead to substantial price hikes for the new products complying with more stringent emission norms, which poses risk to medium term demand growth and is a key monitorable.

Vulnerable to increasing demand for alternative power back-ups with industries embracing cleaner fuels – With the worldwide shift towards less carbon-intensive sources of energy, industries are planning to migrate to alternative power backups including solar. This structurally reduces demand for DG sets and thus can limit the growth prospectus over the medium to longer term.

Liquidity position: Strong

Sudhir Group's liquidity remains **strong**, supported by steady internal accrual generation, sizeable financial investments and cash balances of above Rs. ~1100 crore as of March 2022, which also generate non-operating income. As a result, the reliance on external debt funding in the manufacturing business has remained low. Additionally, cushion in the form of undrawn bank lines coupled with moderate debt repayment liabilities in the overseas leasing business provides comfort.

Rating sensitivities

Positive factors – Healthy growth in scale of operations and business diversification while improving profitability metrices on a sustained basis could lead to a ratings upgrade.

Negative factors – Considerable decline in revenues and cash flow generation, on a sustained basis, on the back of subdued demand may trigger a negative action on the ratings. Moreover, sizeable debt-funded capex leading to deterioration of the capital structure and debt protection metrics, or considerable decline in liquid investments and cash balances could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and rating approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of Sudhir Power Limited, Sudhir Sales and Services Limited, Sudhir Transformers Limited and Sudhir Power Projects Limited, given their strong business linkages as well as common management. Further, ICRA has considered the consolidated financial of Sudhir Power Limited and its subsidiaries and joint ventures which are all enlisted in Annexure-2.

About the company

SPL was promoted by Mr. Sudhir Seth in 1973 and is the flagship company of the Sudhir Group. The company is an OEM of CIL and one of the leading producers of DG sets in the range of 7.50 KVA to 3,300 KVA. The company also manufactures ancillary equipment such as control panels and acoustics and has a dominant position in the northern and north-western states of India. The Sudhir Group is also involved in manufacturing of products for power equipment industry, execution of electrification and solar projects, equipment leasing (DG sets, aerial work platform equipment and forklifts) in India and the Gulf countries, and after-sales service for DG sets.

Key financial indicators

Sudhir Power Limited/Sudhir Group (Consolidated; Audited)	FY2021A	FY2022A
Operating Income (Rs. crore)	1,159.2	1,771.3
PAT (Rs. crore)	225.7	227.5
OPBDIT/OI (%)	12.6%	16.8%
PAT/OI (%)	19.5%	12.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.4
Total Debt/OPBDIT (times)	2.0	1.2
Interest Coverage (times)	16.1	24.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, A:Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Dec 16, 2022	Oct 29, 2021	July 10,2020	-	Jan 14,2019
1	Non-Fund Based Working Capital Facilities	Short Term	119.5		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+(SO)
2	Non-Fund Based Working Capital Facilities	Long Term	27.0		[ICRA]AA-(Stable)	-	-	-	-
3	Fund based Working Capital Facilities	Long Term	3.0		[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	-
4	Interchangeable CC Limits	Long Term	(17.01)		[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	[ICRA]AA-(SO)(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term - Non-Fund-based Working Capital	Very Simple
Long-Term - Non-Fund Based Working Capital Facilities	Simple
Long-term - Fund Based Working Capital	Simple
Interchangeable CC Limits	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Non-Fund Based Working Capital	-	-	-	119.5	[ICRA]A1+
NA	Non-Fund Based Working Capital	-	-	-	27.0	[ICRA]AA-(Stable)
NA	Fund-Based Working Capital	-	-	-	3.0	[ICRA]AA-(Stable)
NA	Interchangeable CC Limits	-	-	-	(17.01)	[ICRA]AA-(Stable)

Source: *Sudhir Power Projects Limited*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sudhir Power Projects Limited	100%	Full Consolidation
Sudhir Transformers Limited	100%	Full Consolidation
Sudhir Sales and Services Limited	100%	Full Consolidation
Double Ess Estate Private Limited	100%	Full Consolidation
Sudhir Cast Resin Transformers Private Limited	100%	Full Consolidation
Consortium of Sudhir Power Projects Limited & Sudhir Power Limited	100%	Full Consolidation
Consortium of Sudhir Power Projects Limited India & Cobra Instalaciones Y Servicios S.A. Spain	98%	Full Consolidation
Sudhir Ready Genset Consortium	55%	Full Consolidation
Sudhir Semco LLP	60%	Full Consolidation
Sudhir Gensets FZE	100%	Full Consolidation
Sudhir Power (UK) Limited	100%	Full Consolidation
Sudhir Equipment Rental company	100%	Full Consolidation
Star Platforms Limited	100%	Full Consolidation
Powertek Services Limited	100%	Full Consolidation

Source: *Company*
Note: *ICRA has taken a consolidated view of the parent (SPL), its subsidiaries and joint ventures while assigning the ratings.*

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About ICRA Limited:

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