December 31, 2024

Shirdi Sai Electricals Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term - Non-fund-based facilities	708.65	708.65	[ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed
Long-term fund-based - Working capital	615.48	323.39	[ICRA]BBB- (Stable); reaffirmed
Long term fund based - Term loan	50.00	50.00	[ICRA]BBB- (Stable); reaffirmed
Long term/Short term - unallocated limits	29.87	321.96	[ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed
Total	**1,404.00**	**1,404.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings factors in a healthy earnings growth of Shirdi Sai Electricals Limited (SSEL) in FY2024 and its strong order book of ~Rs. 7,700 crore as on October 31, 2024, leading to strong revenue visibility, going forward. ICRA also draws comfort from SSEL's established presence in the distribution transformer manufacturing segment along with its experience of around two decades as an EPC contractor. The company has strong relationships with its clients, evident from the repeat orders from the discoms. Further, the ratings factor in SSEL's healthy profit margins, supported by backward-integrated operations and in-house manufacturing of transformer sub-parts.

The ratings, however, are constrained by the company's high receivable position, as inherent in the EPC business due to the long execution period of projects, the milestone-based payments and the retention money requirement that is released post the defect liability period. Further, the expected increase in scale and large order inflows are likely to entail higher working capital requirements. Nonetheless, ICRA expects the enhancement in working capital limits to support the increase in working capital requirements.

The ratings remain tempered by the high geographical and customer concentration risks as Andhra Pradesh state power distribution utilities (AP discoms) contribute to over 80% of SSEL's revenue and the outstanding order book. The discoms have modest financial profiles and a timely receipt of the ongoing bills remains a key monitorable for SSEL. ICRA notes that the company has been focusing on the addition of new customers, which will reduce the customer concentration risk gradually.

Further, Wish Renewables Private Limited (subsidiary of SSEL) has entered into a long-term contract with AP discoms for installing and operating smart meters for agriculture services in Andhra Pradesh. The company is responsible for installing 18.58 lakh smart meters along with the associated infrastructure under the capex plus opex model. As per the contract, apart from the capex payments, the company will receive fixed monthly service charges for the operational meters through the operating period of 93 months, subject to meeting the stipulated operating parameters. The estimated capex cost for implementing the project is ~Rs. 1,531 crore which will be funded through a debt of Rs. 1,070 crore and the remaining (~Rs. 461 crore) through promoter contribution.

The ratings are constrained by project execution risk for the smart meter contract as more than 85% of the meters are yet to be installed as of November 2024. Further, the company has taken significant debt drawdown for the smart meter project, which has increased the consolidated debt levels of SSEL to ~Rs. 1,000 crore as on September 30, 2024, from Rs. 271 crore as on March 31, 2023. Hence, any delay in the execution of the project due to non-availability of access to site or other issues attributable to the AP discoms would impact the liquidity of SSEL.

ICRA notes that SSEL has a cash outflow of ~Rs. 350 crore towards its subsidiary company, Indosol Solar Private Limited, for funding its 500-MW solar module manufacturing facility in Nellore, Andhra Pradesh. The facility is expected to be operational by April 2025, post the necessary approvals. Further, the company plans to enhance its capacity to a 1-GW fully integrated solar module (wafer, cell and module facility) manufacturing facility. The same is expected to be funded through a mix of debt and equity. ICRA will monitor the development closely, given the large scale of the project, and the significant investment outlay planned.

SSEL also incorporated a subsidiary - Shuchi Alloys & Conductors Technology Private Limited - in FY2024 to set up an alloy aluminum conductor manufacturing facility at Kadapa, Andhra Pradesh. The estimated capital expenditure for this facility is Rs. 215 crore, which will be funded through debt equity mix of 70:30. The facility is expected to be operational from March 2025.Overall, ICRA expects the consolidated debt levels to increase due to its planned capital expenditure in various subsidiaries. Hence, a timely commissioning and scale-up these projects remains important from a credit perspective.

The Stable outlook on SSEL's rating factors in its revenue visibility, aided by the pending order book position, expectation of regular realisation of bills from its customers and timely execution/commissioning of various projects.

Key rating drivers and their description

Credit strengths

Long track record in transformer industry - SSEL is one of the prominent players in the distribution and power transformer manufacturing industry and has emerged as an EPC contractor in the segment over the years. The company's major clients include the state power distribution utilities of Andhra Pradesh, Bihar, Gujarat, Rajasthan, Madhya Pradesh, Odisha etc. Further, the company has been focusing on increasing its export orders.

Backward-integrated operations provide cost and quality control - SSEL's backward integration into core, conductor, winding and tank fabrication operations aids in a healthy profitability. SSEL manufactures a significant portion of the transformer parts in-house that gives it significant cost control opportunities and ensures quality check. In FY2023, the company commenced the operations of the relatively high-capacity power transformers at Prayagraj, Uttar Pradesh, which has strengthened its product range and helped the company expand its footprint in the North Indian region. The company's consolidated revenue and profitability improved in FY2024 compared to FY2023, mainly due to the benefits of backward integration and increase in scale along with the execution of high-margin orders. ICRA believes that the margin profile of SSEL will continue to be healthy in the medium term.

Robust order book position - SSEL had an outstanding order book of Rs. 7,700 crore as on October 31, 2024, translating into 2 times of the FY2024 revenues, thereby providing healthy revenue visibility. This includes orders for the smart meter project and orders under the Revamped Distribution Sector Scheme (RDSS). Hence, the timely execution of the orders is critical to sustain the earnings growth.

Credit challenges

Moderate working capital intensity - SSEL's working capital intensity remains moderate, reflected in NWC/OI as on September 30, 2024, because of the high receivable position, as inherent in the EPC business due to the long execution period of the projects, the milestone-based payments and the retention money requirement that is released post the defect liability period. Besides this, majority of the company's revenues are concentrated with the Andhra Pradesh discoms which have modest financial profiles. Hence, a timely receipt of the payment remains important from a liquidity point of view.

Project execution risk for smart meter orders – The company is exposed to project execution risk as more than 85% of the meters are yet to be installed as of November 2024. Further, the company has taken significant debt drawdown for the smart meter contract, which has increased the consolidated debt levels of SSEL. Hence, any delay in the execution of the project due to non-availability of access to site or other issues attributable to the AP discoms would impact the liquidity of SSEL.

Capital expenditure plans to increase consolidated debt – The company has ~Rs. 140-crore capital expenditure planned at the standalone level to upgrade its transformer manufacturing facility at Kadapa, Andhra Pradesh. This, along with the planned capital expenditure for the smart meter project, the solar module manufacturing facility and the alloy aluminum conductor manufacturing unit will increase the company's debt levels. Hence, a timely commissioning and scale-up of these projects remains important from a credit perspective.

High customer and geographical concentration risks - The customer and geographical concentration risks remain high as the Andhra Pradesh discoms contribute to ~80% of the company's revenue and outstanding order book. ICRA, however, notes that the projects undertaken by SSEL are funded by Central/multilateral agencies. The management has indicated that the concentration is majorly attributable to the company bidding for projects only in states where funding tie-up is available from Central/multilateral agencies. Moreover, the company is adding new customers and new geographies, which is expected to mitigate the concentration risk to some extent.

High competition - Competition is intense in the highly fragmented transformer industry, which in turn translates into pricing pressure to a certain extent. The company, however, benefits from a backward-integrated operation which results in cost control and ensures the quality of the products.

Liquidity position: Adequate

The company's liquidity position remains adequate, supported by the modest cash flow generation from the operations. Further, the company had unencumbered cash of ~Rs. 180 crore as on September 30, 2024 on a consolidated basis and buffer in the working capital limits (average utilisation of 71% during the last 15 months ended October 2024). This, along with an expected order book execution and timely payments from the customers, should be adequate to meet the debt repayment, going forward. Further, an expected enhancement in the working capital limits will support the liquidity position.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a sustained increase in earnings along with a diversification of the customer base, a track record of timely payments from the discoms and a significant and continued improvement in the liquidity position.

Negative factors – Pressure on the ratings could arise if there is a significant deterioration in the scale of operations or profit margins, and/or higher-than-anticipated debt-funded capex that adversely impacts the key credit metrics and liquidity. Further, any delays in order execution and receipt of payment from discoms adversely impacting the company's liquidity profile could be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of SSEL and its subsidiaries. The list of subsidiaries considered for consolidation is provided in Annexure-II

About the company

Shirdi Sai Electricals Limited (SSEL), incorporated in 1994, manufactures power and distribution transformers (up to 20 MVA, 66 kV). The company has a transformer manufacturing facility at Kadapa, Andhra Pradesh. In FY2023, the company began manufacturing power transformers at Prayagraj in UP.

The company designs and manufactures power and distribution transformers to cater to the needs of electricity utilities as well as private enterprises within India and abroad. SSEL also provides solutions for power transmission and distribution systems through its turnkey projects division. The company has also set up a solar module manufacturing facility under its subsidiary- Indosol Solar Private Limited - and an alloy aluminum conductor manufacturing facility under its subsidiary - Shuchi Alloys & Conductors Technology Private Limited.

Key financial indicators (audited)

SSEL	Standalone			Consolidated	
	FY2023	FY2024	H1 FY2025*	FY2023	FY2024
Operating income (Rs. crore)	2051.8	3608.7	1069.7	2419.6	3821.7
PAT (Rs. crore)	278.8	608.5	215.3	300.9	632.3
OPBDIT/OI (%)	22.8%	25.7%	25.2%	20.9%	26.8%
PAT/OI (%)	13.6%	16.9%	20.1%	12.4%	16.5%
Total outside liabilities/Tangible net worth (times)	0.7	1.0	0.8	0.7	1.3
Total debt/OPBDIT (times)	0.5	0.3	0.8	0.5	0.9
Interest coverage (times)	7.9	9.3	5.3	7.3	7.8

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *Provisional financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

	Current (FY2025)				Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Non-fund based facilities	Long term/ Short term	708.65	Dec 31, 2024	[ICRA]BBB-(Stable)/ [ICRA]A3	Apr 24, 2023	[ICRA]BBB-(Stable)/ [ICRA]A3	Jun 03, 2022	[ICRA]BBB-(Stable)/ [ICRA]A3	Jun 17, 2021	[ICRA]BB (Stable)/ [ICRA]A4
					Sep 29, 2023	[ICRA]BBB-(Stable)/ [ICRA]A3	Jun 29, 2022	[ICRA]BBB-(Stable)/ [ICRA]A3	Jul 23, 2021	[ICRA]BB (Stable)/ [ICRA]A4
									Feb 08, 2022	[ICRA]BB+ (Positive)/ [ICRA]A4+
Fund-based - working capital	Long term	323.39	Dec 31, 2024	[ICRA]BBB-(Stable)	Apr 24, 2023	[ICRA]BBB-(Stable)	Jun 03, 2022	[ICRA]BBB-(Stable)	Jun 17, 2021	[ICRA]BB (Stable)
					Sep 29, 2023	[ICRA]BBB-(Stable)	Jun 29, 2022	[ICRA]BBB-(Stable)	Jul 23, 2021	[ICRA]BB (Stable)
									Feb 08, 2022	[ICRA]BB+ (Positive)
Term loan	Long term	50.00	Dec 31, 2024	[ICRA]BBB-(Stable)	Apr 24, 2023	[ICRA]BBB-(Stable)	Jun 03, 2022	[ICRA]BBB-(Stable)	-	-
					Sep 29, 2023	[ICRA]BBB-(Stable)	Jun 29, 2022	[ICRA]BBB-(Stable)	-	-

Unallocated limits	Long term/ Short term	321.96	Dec 31, 2024	[ICRA]BBB- (Stable)/ [ICRA]A3	Apr 24, 2023	[ICRA]BBB- (Stable)/ [ICRA]A3	Jun 03, 2022	[ICRA]BBB- (Stable)/ [ICRA]A3	Jun 17, 2021	[ICRA]BB (Stable)/ [ICRA]A4
					Sep 29, 2023	[ICRA]BBB- (Stable)/ [ICRA]A3	Jun 29, 2022	[ICRA]BBB- (Stable)/ [ICRA]A3	Jul 23, 2021	[ICRA]BB (Stable)/ [ICRA]A4
									Feb 08, 2022	[ICRA]BB+ (Positive)/ [ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term - Non-fund based facilities	Very Simple
Long term fund-based - Working capital	Simple
Long term fund-based - Term loan	Simple
Long term/Short term - Unallocated limits	Not Applicable

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 analysing 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 are available on ICRA's website: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term/Short term - Non-fund-based facilities**	NA	NA	NA	708.65	[ICRA]BBB- (Stable)/ [ICRA]A3
NA	**Long term fund-based - Working capital**	NA	NA	NA	323.39	[ICRA]BBB- (Stable)
NA	**Long term fund-based - Term loan**	March 2022	NA	FY2027	50.00	[ICRA]BBB- (Stable)
NA	**Long term/Short term - Unallocated limits**	NA	NA	NA	321.96	[ICRA]BBB- (Stable)/ [ICRA]A3

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Shirdi Sai Electricals Limited	100.00% (Rated Entity)	Full Consolidation
Indotech Transformers Limited	75.00%	Full Consolidation
Indosol Solar Private Limited	58.40%	Full Consolidation
Wish Renewables Private Limited	100.00%	Full Consolidation
Navare Smart Technologies Private Limited#	100.00%	Full Consolidation
Suryachakra Developers Private Limited#	100.00%	Full Consolidation
Shuchi Alloys & Conductors Technology Private Limited#	100.00%	Full Consolidation

Source: Company; #The above are wholly-owned subsidiaries incorporated during FY2024

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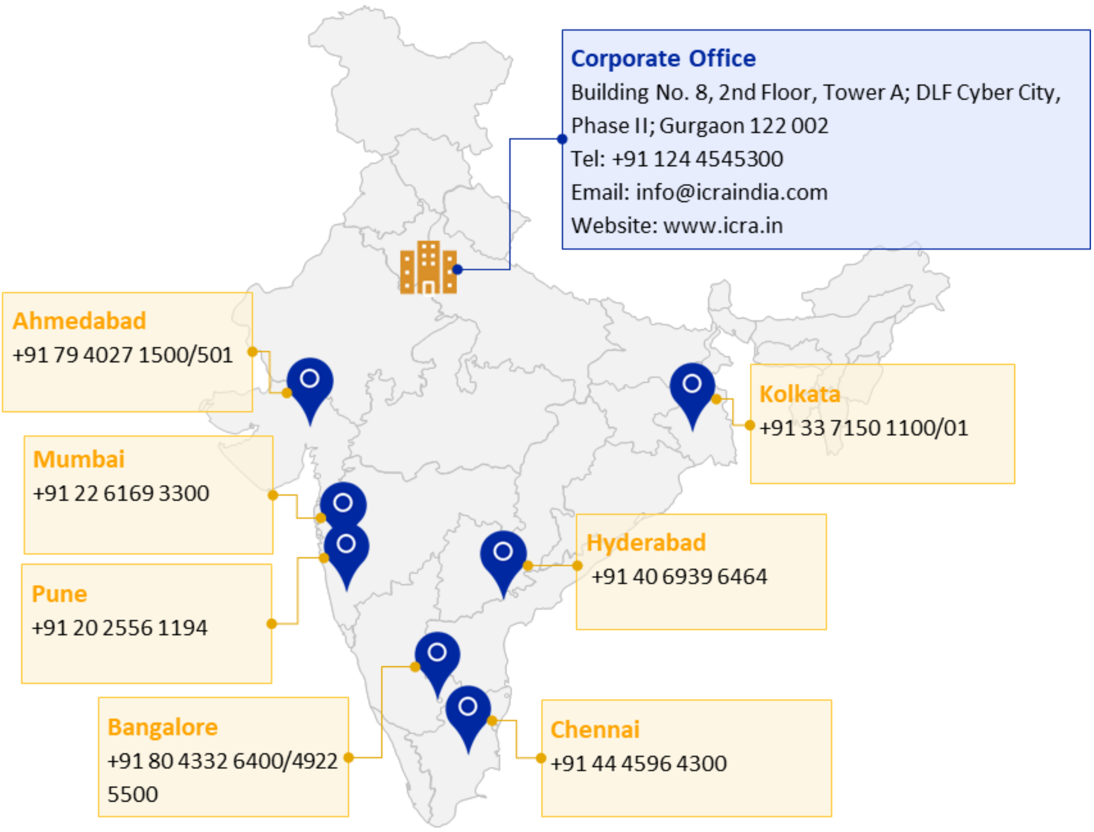

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