

Rating Rationale

17 Dec 2019

Switchgears Structural (INDIA) P. Ltd

Brickwork Ratings reaffirms the ratings for the bank loan facilities of Rs.25.00 Crore of Switchgears Structural (INDIA) P.Ltd ('SSPL' or 'the company')

Particulars

Facilities	Amount (Rs. Crs)		Tenure	Rating*	
	Previous	Present		Previous	Present
Fund Based					
Cash Credit	10.50	10.50	Long Term	BWR BB/Stable	BWR BB/Stable Reaffirm
Standby Line of Credit	0.25	0.25			
Non Fund Based					
Letter of Credit	2.50	2.50	Short Term	BWR A4	BWR A4 Reaffirm
Bank Guarantee	11.75	11.75			
Total	25.00	Rs. 25.00 Crore (Rupees Twenty Five Crore Only)			

* Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Note: Details of Bank facilities are provided in Annexure I

Rating Action/Outlook

The ratings reaffirm is on account of experience of promoter in the manufacturing of isolator business, moderate financial risk profile and liquidity, technological collaboration with Hapam BV and rupted clientele. However, the ratings are constrained by the moderate scale of operations and low profitability margins, order book position, inherent risks associated with manufacturing of electrical equipment and working capital intensive nature of operations.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that **Switchgears Structural (INDIA) P. Ltd**' business risk profile will be maintained over the medium term. The outlook may be revised to 'Positive' if the company records significantly better-than-expected revenue and profitability and improved working capital management, resulting in better debt coverage metrics and liquidity profile. The outlook may be revised to 'Negative' if the company reports significantly lower than expected performance, resulting in lower than estimated coverage indicators, and a weaker liquidity position. Further, any major debt-funded expenditure resulting in deterioration in capital structure and debt

coverage indicators and/or a sharp reversal in industry operating conditions may exert a downward pressure on the rating.

Key Rating Drivers

Credit Strengths:

- **Experienced promoter:** The promoters have extensive experience in the manufacturing of isolator business, which has enabled the company to build healthy relationships with customers and suppliers.
- **Moderate financial risk profile:** Financial risk profile is moderate with moderate capital structure and debt protection metrics. Tangible net worth, Gearing, Interest service coverage ratio and Debt service coverage ratio were around Rs.16.14 Crs, 0.87 times, 1.99 times and 1.80 times respectively as on 31st March 2019.
- **Reputed clientele:** The company executes contracts primarily for established clients like State Government related contracts like Electricity Boards of Maharashtra, Andhra Pradesh, KPCL, Himachal Pradesh, Power & Electricity Department of Goa. etc. and corporate clientele like ABB Ltd, BHEL, Crompton Greaves Ltd, Ircon International Ltd, Larsen & Toubro Ltd, INDAL , NALCO etc.

Credit Challenges:

- **Moderate scale of operations and low profitability margins:** Revenue remains moderate at around Rs 58.72 Crs for FY19 as against Rs.54.08 Crs in FY18. Operating profit margin and net profit margin were low at 7.56% and 2.06% respectively for FY19.
- **Presence in highly competitive industry and tender nature of the business:** The industry is highly fragmented with the presence of many organized and unorganized players. Further, tender based nature of business places pressure on the profitability of the company.
- **Moderate order book position:** Switchgears Structurals (INDIA) P. Ltd (SSPL) has Moderate revenue visibility backed by an order book position of around Rs.59 Crs as on 30th November 2019. It will be executed in the next 6 months.

Analytical Approach and Applicable Rating Criteria

As it is a company, standalone approach has been adopted and BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Sensitivities

The ability of the company to increase revenues, improve its profitability margins, strengthen its credit risk profile and manage its working capital efficiently would remain the key rating sensitivities.

Positive:

- Sustained improvement in scale of operations with improved profitability margins and capital structure.
- Specific credit metrics that could lead to an upgrade of SSPL's rating include (1) Total Debt/Tangible Net Worth below 0.50 time on a continuous basis, (2) DSCR and ISCR greater than 3.0 times on a continuous basis.

Negative:

- Specific credit metrics that could lead to a downgrade of SSPL rating include (1) Decline in profitability margins i.e., Operating margin below 5.00% and net margin below 2.00%, due to lower price realisations, increase in input costs due to changing industry conditions or a rise in capex (2) Total Debt/Tangible Net Worth exceeding 1.0 times and weakening in debt protection metrics with DSCR and ISCR declining below 1.00 times.

Liquidity Position: Moderate

Current ratio was 1.50 times in FY19. The company does have debt repayment obligations. Days receivables of 115 days and Days Payables of 105 days as on 31st March 2019 were a matter of concern. .

About the Company

Switchgear Structural India Pvt Ltd was incorporated in 1992, Prior to which the Company was working together with former establishment Switchgear Manufacturing Company Ltd. The Company is involved in the business of manufacturing EHV ISOLATORS for the last 25 years. The company has an order book position of around Rs.59.37 Crs as on 30th November 2019 and it will execute in the next 6 months. The Company currently manufactures Isolators/ Disconnectors having capacity 11 KV to 765 KV and electric and current rating upto 4000 AMPS. SSPL is in collaboration with Hapam BV a Netherlands based manufacturer for high voltage based disconnectors and earthing switches. The Company is in collaboration with Hapam for Technical cooperation for the production of 420 KV to 765 KV disconnectors and earthing switches in India. M/S Hapam BV hold approximately 45% stake in the Company as on 31st March 2019.

The Company is promoted by Mr O Surendra Babu (Managing Director). He has over 25 years

of business experience in the isolator manufacturing sector.

Key Financial Indicators

Key Parameters	Units	31 Mar 2018	31 Mar 2019
Result Type		Audited	Audited
Operating Revenue	Rs. Cr	54.08	58.72
EBITDA	Rs. Cr	4.28	4.44
Profit After Tax	Rs. Cr	1.17	1.21
Tangible Net Worth	Rs. Cr	14.93	16.14
Total Debt/Tangible Net Worth	Times	0.93	0.87
Current Ratio	Times	1.39	1.50

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA – Not Applicable

Rating History for the last three years

Sl. No.	Facilities	Current Ratings (2019)			2019# [Oct 16, 2019]	Ratings History		
		Type	Amount (Rs. Cr)	Ratings		2018' [Oct 15, 2018]	2017	2016
1 2	Cash Credit Standby Line of Credit	Long Term	10.50 0.25	BWR BB Stable Reaffirm	BWR BB Stable Reaffirmed Not Reviewed	BWR BB Stable Assigned	-	-
3 4	Letter of Credit Bank Guarantee	Short Term	2.50 11.75	BWR A4 Reaffirm	BWR A4 Reaffirmed Not Reviewed	BWR A4 Assigned	-	-
Total		Rs. 25.00 Crore (Rupees Twenty Five Crore Only)						

Ratings migrated to 'Not Reviewed' category from 16th October 2019

1 amount rated Rs.25.00 Crs

Complexity Levels of the Instruments:

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

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Switchgears Structurals (INDIA) P. Ltd

Annexure I: Details of Bank Facilities rated

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1.	State Bank of India	Cash Credit	10.50	-	10.50
		Standby Line of Credit	0.25	-	0.25
		Letter of Credit	-	2.50	2.50
		Bank Guarantee	-	11.75	11.75
TOTAL - Rupees Twenty Five Crores Only					25.00



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