

## Shreem Electric Limited (Revised)

March 20, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	314.57	CARE BB-; Stable; ISSUER NOT COOPERATING*	Revised from CARE BB; Stable and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	256.82	CARE A4; ISSUER NOT COOPERATING*	Rating moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.

\*Issuer did not cooperate; based on best available information.

### Rationale and key rating drivers

CARE has been seeking information from Shreem Electric Limited (SEL) to monitor the rating vide email communications dated March 06, 2023, March 02, 2023, February 27, 2023, February 22, 2023, and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. Further, Shreem Electric Limited has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on Shreem Electric Limited bank facilities will now be denoted as CARE BB-; Stable/CARE A4; ISSUER NOT COOPERATING.

### Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The long term ratings has been revised on account of non-availability of sufficient information to carry out the review coupled with decline in profitability margin in FY22 coupled with elongated working capital cycle.

**Analytical approach:** Standalone

**Outlook:** Stable

### Detailed description of the key rating drivers:

At the time of last rating on December 27, 2021, the following were the rating strengths and weaknesses (updated for the information available from Registrar of Companies)

#### Key weaknesses

**Stagnant scale of operation:** SEL's scale of operation remained stagnant. During FY22, the company's total operating income stood at Rs. 287.45 crore vis-à-vis Rs. 284.21 crore in FY21.

**Leveraged capital structure and debt coverage indicators:** Capital structure marked by overall gearing continued to remain leveraged in past owing to higher reliance on the external debt to fund its business operations. Overall gearing deteriorated marginally owing to marginal deterioration in networth base owing to deferred tax. Debt coverage indicators marked by total debt/GCA deteriorated and stood at 63.36x for FY22 vis-à-vis 53.57x for FY21.

**Working capital intensive nature of operation:** The operations of SEL are highly working capital intensive in nature due to funds blocked in debtors. SEL receives the payment on percentage completion basis being engaged in EPC business. Moreover, the company needs to provide performance bank guarantees to its customers. The duration of these performance bank guarantees ranges from five to seven years. This further stretches its liquidity position as significant amount of cash remain blocked in margin money against the bank guarantee.

**Impending exit of PE investor:** In October 2010, SEL had issued compulsorily convertible preference shares to FIL Capital Management (Mauritius) Ltd of Rs.65.99 crore. As per the terms of these shares, SEL has to give investors an exit route within the prescribed time period of three years ending in October 2018, failing which the investors had the right to call upon the company to buy back all or any of the shares stipulated by the investors. As per the revised agreement FIL's put option expiry date was extended till April 01, 2020. Currently, it is mutually decided that PE investor will exit through joint venture partners.

**Susceptibility of the profit margin to volatility in the raw material prices:** SEL's major raw material includes angles, channels, PP film, C.D oil which form about 25% of the total raw material cost. SEL has a price variation clause built in almost all its contracts; however, the same is based on an average price calculated as per the Indian Electricals and Electronics Manufacturing Association (IEEMA) calculator and not on the actual purchase price. Moreover, there exists no price variation

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

clause for escalation in price of other components/ raw materials such as C.P Oil and cement prices, etc. which are not covered by IEEMA. Hence, SEL's profit margins are susceptible to volatility in input prices to a certain extent.

**Highly competitive industry because of the fragmented and tender-driven nature of business:** The electrical engineering procurement and construction industry is fragmented in nature with a large number of medium scale players present at regional level. This coupled with the tender-driven nature of contracts poses huge competition and puts pressure on the profit margins of the players. SEL is a regional player with electrical, civil and structural works contracts primarily concentrated towards few clients. Furthermore, SEL faces fierce competition from other companies for new orders.

**Deterioration in operating profit margin:** SEL PBILDT margin declined from 18.68% in FY21 to 13.84% in FY22. PAT margin declined to 1.09% in FY22 vis-à-vis 3.15% in FY21.

#### Key Strengths

**Experienced promoters and long track record of the company's operations:** Established in 1976, SEL (earlier named as Shreem Capacitors Private Ltd) is promoted by its founding promoter Mr Shahaji R Jagdale. Mr S.R Jagdale has over four decades of experience in electrical engineering industries. Furthermore, Mr S. R. Jagdale is also supported by his sons, Mr Vikas Jagdale (Joint MD) and Mr Vishal Jagdale (ED) who have around two decades of experience in the industry.

**Long track record of operations in the electrical component manufacturing and EPC business:** SEL has been present in the electrical component manufacturing business since more than four decades. The company is also present in the electrical EPC business since 1996. Over the period of time the company increased its product portfolio from capacitors to other electrical components such as circuit breakers, control and relay panels, lightening arresters, switch gears, panel making, etc. The company is one of the leading domestic manufacturers of medium and high voltage capacitors segment with a total installed capacity of 1,000 million volt ampere reactor. In EPC segment the company undertakes contract for erection of distribution substations, capacitor banks etc. and has executed various orders up to 400 KVA for several state electricity boards. Besides state electricity boards, SEL also caters to a wide spectrum of transformer users in a variety of industries such as cement, steel, power, railway applications, mining, etc.

#### Applicable criteria

[Policy in respect of Non-cooperation by issuer](#)

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Construction](#)

#### About the company and industry

##### Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

Shreem electric Limited (SEL) was incorporated on January 02, 1976, by Mr Shahji R. Jagadale in the name of Shreem Capacitors Private Ltd. On December 30, 2009, the company's name was changed to Shreem Electric Private Ltd. Furthermore, on February 26, 2010, the company was converted into a public limited company, and the name was changed to the present one. SEL is currently into Engineering, Procurement and Construction (EPC) for the erection of sub-stations as well as in the manufacture of components used in EPC. Under the EPC segment, the company has executed various orders up to 400 KVA for various state electricity boards. SEL has backward integration in the form of component/ parts /tower manufacturing facilities. The products manufactured by SEL includes wide range of medium and high/ low voltage capacitors, capacitor banks, circuit breakers, control & relay panels, lightening arrestors, switchgear, water-cooled capacitors, substation structures, etc.

Brief Financials (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (A)
Total operating income	450.37	279.31	287.45
PBILDT	69.17	48.18	39.79
PAT	20.49	8.95	3.13
Overall gearing (times)	1.27	1.34	1.30
Interest coverage (times)	1.32	1.01	0.99

A: Audited, Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	251.94	CARE BB-; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	10-06-2026	62.63	CARE BB-; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC		-	-	-	256.82	CARE A4; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; based on best available information.

#### Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	251.94	CARE BB-; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable (27-Dec-21)	1)CARE BB; Stable (04-Dec-20)	1)CARE BB; Stable (31-Mar-20) 2)CARE BB; Stable (05-Aug-19) 3)CARE BB; Stable (29-Jul-19)
2	Non-fund-based - ST-BG/LC	ST	256.82	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (27-Dec-21)	1)CARE A4 (04-Dec-20)	1)CARE A4 (31-Mar-20) 2)CARE A4 (05-Aug-19)

								3)CARE A4 (29-Jul-19)
3	Fund-based - LT-Working capital Term Loan	LT	-	-	-	-	-	1)Withdrawn (05-Aug-19) 2)CARE D (29-Jul-19)
4	Fund-based - LT-Term Loan	LT	62.63	CARE BB-; Stable; ISSUER NOT COOPERATING *	-	1)CARE BB; Stable (27-Dec-21)	1)CARE BB; Stable (04-Dec-20)	-

\*Issuer did not cooperate; based on best available information.

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not available

**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

## Contact us

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