Marine Electricals (India) Limited

B-1, Udyog Sadan-3, MIDC, Andheri (E), Mumbai-93, INDIA, Tel.: 91-22-40334300 Fax: 91-22-28364045 E-mail : info@marineelectricals.com
Website : www.marineelectricals.com CIN : U31907MH2007PLC176443 (Formerly known as Marine Electricals (I) Pvt. Ltd.)

Ref: MEIL/SEC/2019-20/24

08th January, 2020

The Manager
National Stock Exchange of India Ltd.
Exchange Plaza, C-1, Block- G,
Bandra Kurla Complex,
Bandra (East) Mumbai–400 051.
Fax No. 26598235/8237/8347.
Symbol: MARINE

Dear Sirs/Madam,

Sub: Intimation under regulation 30 of SEBI (LODR) Regulations, 2015 - Reaffirmation and assignment of Credit Ratings by ICRA Limited

Pursuant to Regulation 30 read with Schedule III Part A of SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, we hereby inform you that ICRA Limited ("ICRA") vide its letter dated 07th January, 2020 (enclosed herewith), has reaffirmed the long term ratings as [ICRA] BBB- (Negative) and the short term ratings as [ICRA] A3.

ICRA has noted in its report that the ratings continues to derive strength from the established track record of the Company in providing integrated electrical solutions to marine and industry segments, well reputed customers, comfortable capital structure and healthy order book.

You are requested to take the same on record & oblige.

Thanking You.

Yours faithfully,

For Marine Electricals (India) Limited

Reesha

Reesha Ratanpal
Company Secretary and Compliance officer
ACS: 58695

Marine Electricals (India) Limited

Encl: As above

January 07, 2020

Marine Electricals (I) Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit	29.00	29.00	[ICRA]BBB- (Negative); Reaffirmed
Fund-based – EPC/EBD/PCFC (Sub-limit of Cash Credit)	(7.00)	(7.00)	[ICRA]A3; Reaffirmed
Non-fund Based – Bank Guarantee	118.38	118.38	[ICRA]A3; Reaffirmed
Non-fund Based – Letter of Credit	(45.00)	(45.00)	[ICRA]A3; Reaffirmed
Unallocated limited	3.62	3.62	[ICRA]A3; Reaffirmed
Total	**151.00**	**151.00**	-

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings with negative outlook for Marine Electricals (I) Limited ('MEL' or 'the Company') continues to take into account the high working capital intensity of business emanating from the elongated receivables with the presence of sizeable debtors of over six months thereby exerting pressure on the company's liquidity profile though on an absolute level debtors over six months moderated as on September 30, 2019. The rating also reflects the continued weakening of MEL's profitability metrics owing to operational losses in its solar segment on account of the cost overruns linked to the solar projects and its subsequent impact on the coverage indicators. Further, in absence of the fresh orders from the solar segment the company's operating income in H1 FY2020 witnessed a degrowth of ~55% to Rs. 83.06 crore compared to an operating income of Rs. 182.93 crore in H1FY2019. Nevertheless, the expected higher quantum of order execution in H2FY2020 backed by healthy orderbook position in marine and industry segment as on September 2019 is likely to restrict the decline in operating income to an extent in the current fiscal and also provides visibility of healthy revenue growth in the medium term. ICRA also takes a note of the vulnerability of profitability to currency fluctuations as well as raw material price fluctuations, the bidding process in marine industry and stiff competition in the industry segment, which limits the margin flexibility of the company. However, the risk associated with tender bidding business is partly offset with the company status being a nominated vendor for its key customers in the marine segment and given its sound technical capabilities which facilities to acquire new projects based on T1 (technical evaluation) regime in industry segment.

The ratings, however, continues to draw comfort from the established track record of MEL in providing integrated electrical solutions to marine and industry segments. Further, its well reputed customers in the Government as well as private-sector entities which reduces the counterparty risk to an extent. The ratings also take into consideration the comfortable capital structure given its strong net worth position.

Key rating drivers

Credit strengths

Established experience of promoters, technical tie-ups with reputed companies an advantage - Mr. Venkatesh Uchil and Mr. Vinay Uchil are the key promoters and directors of the company who have an experience of around two decades in this line of business. Furthermore, MEL has technical tie-ups with various companies across the world for advanced systems required within the marine, industry and the solar segment, which is likely to improve the growth prospects as well as operational diversification of the company.

Strong unexecuted order book position supported by healthy order inflow from marine and industry business: Closing orderbook of the company increased to Rs. 434.07 crore during December 2019 from Rs. 243.85 crore as on March 2019. Increase in orderbook is primarily driven by increase in order inflow from its core business in the marine and the industry segment. A healthy orderbook position in the marine segment and lower turnaround time for orders in the industry segment provides visibility of strong growth in its core business, which has remained profitable during FY2019 and in the current year.

Well reputed client base limiting counter party risk– MEL has reputed national and international clientele from the marine industry like the Indian Navy, the Indian Cost Guard, L&T Shipbuilding Limited, Schneider Electricals India Private Limited, GE Power Conservation Private Limited, Garden Reach Shipbuilders & Engg. Ltd, Goa Shipyard Ltd, Cochin Shipyard Limited, Reliance Defence & Engineering Limited and several others. Furthermore, MEL also has a well reputed clientele in the industry segment. In the solar segment, the company has projects from Government entities like NLC India Limited and TIDEL Park Limited. The well-reputed clientele reduces the counterparty risk for the company to an extent.

Operational synergies through Group companies in similar operations - The company has a few subsidiaries namely MEL Power Systems FZC (MEL FZC), Eltech Engineers Madras Pvt. Ltd (EEMPL), and Narhari Engineering Works (NaEng), and a associate company Automatic Electronic Controls mfg. co. (AECMC). MEL FZC is involved in similar operations and caters to international clients from UAE, while EEMPL, AECMC and NaEng form a part of the backward integration and is involved in manufacturing and trading of motor control centres, switch board control panels, electronic and electrical equipment, electric motors, pump sets and other electrical products, along with providing operational support to MEL.

Comfortable capital structure – Against a moderate increase in the company's debt level, the net worth of the company increased to Rs. 124.13 crore as on March 31, 2019 from Rs. 75.47 crore as on March 31, 2018. This is primarily due to the equity infusion of Rs. 40.88 crore through the initial public listing in October 2018. Due to the same, the capital structure of the company continued to remain comfortable as indicated by a gearing level of 0.36 times as on March 31, 2019 and 0.30 times as on September 30, 2019. Further, TOL/TNW continued to stand moderate at 1.28 times a on March 31, 2019 and 1.22 times as on September 30, 2019.

Credit challenges

Considerable receivables leading to high working-capital intensity, timely closure of the solar projects and realisation of receivables remain critical for overall financial profile of the company - There has been a considerable delay in execution of Rs. 198.49 crore solar EPC project for NLC India Limited. The same was expected to be fully commissioned by July 2019 and a handover done by September 2019. However, there has been a further delay in execution and the same is likely to be commissioned by January 2020 and the handover likely by March 2020. A significant amount of money is stuck as receivable, since it is retained by the customers and is due for release, post commissioning, and handover for the solar project. Apart from the solar project, the company also has a debtor of Rs. 16.15 crore outstanding for more than six months from the industry and the marine segment as on September 30, 2019. Total debtors of the company declined from Rs. 139.84 crore as on March 31, 2019 to Rs. 120.47 crore as on September 30, 2019 and debtors outstanding for more than six months declined from Rs 66.54 crore as on March 31, 2019 to Rs. 24.28 crore as on September 30, 2019. Considerable receivables for more than six months led to working capital intensive nature of the business as indicated by NWC/OI of 30.47% as on March 31, 2019 and 58.11% as on September 30, 2019. Nevertheless, dues from Tidel Park (solar projects) to the tune of Rs. 8.75 crore which is expected to be realised by January 2020, will support the liquidity profile of the company. Going ahead, commissioning of the project in the solar segment as well as realisation of debtors as per the revised timeline particularly for the solar segment remains critical to reduce the pressure on the company's liquidity profile.

Weakening of operating profitability due to cost overruns linked to solar project – The profitability of the company as represented by the OPM declined to 5.45% in FY2019 from 8.85% in FY2018 owing to losses in the solar segment due to escalated raw material costs and unfavorable forex fluctuations during FY2019. The decrease in the OPM has simultaneously led to a decrease in the NPM to 2.41% in FY2019 from 4.07% in FY2018. The OPM continued to remain low at 5.47% in H1 FY2020 due to loss making solar operations, which has translated into a low NPM of 0.96% in H1 FY2020. Further, the impact in the operating profitability margin in H1 FY2020 is also due to sizable expenses incurred towards a project of Rs. 6.00 crore pertaining to an industry segment, while its revenue booking deferred to H2FY2020 due to delays in site handover. ICRA note that the adjusted OPM margin considering the same is ~6.59%, and interest cover is 1.53 times for H1FY2020.

Nevertheless, due to delays in execution of the projects, or any invocation of the LD clause by customers due to delay in execution of project, would adversely affect the scale and profitability of the company.

Further, in absence of fresh orders from the solar segment the company's operating income in H1 FY2020 witnessed a degrowth of ~55% to Rs. 83.06 crore compared to an operating income of Rs. 182.93 crore in H1 FY2019. Nevertheless, the expected higher quantum of order execution in H2 FY2020 backed by healthy orderbook position in marine and industry segment as on September 2019 is likely to restrict the decline in operating income to an extent in the current fiscal and also provides visibility of healthy revenue growth in the medium term.

Vulnerability of profits to raw material price fluctuations and foreign currency fluctuations – Exports contributed ~4% to the total OI during FY2018 and ~7% in FY2019. However, import of raw material/purchase of products from the international market increased from ~8% in FY2018 to ~27% in FY2019. Due to the same, the operations of the company remain exposed towards currency risk to a certain extent. The Indian currency remained fluctuating in the range of ~Rs. 68.37 – 72.59 per dollar during the last 12 months. However, the company largely mitigates the currency risk due to the natural hedge from simultaneous import-export operations and also by maintaining an EEFC account. Also, Imports are expected to reduce in the near term given absence of incremental orders in the solar business wherein dependence on imports remain relatively high. Further, the raw material consumption cost contributes to ~80-90% of the total cost. Due to stiff competition, any inability to pass on the raw material price fluctuation and the currency fluctuations, shall affect the company's profitability.

Bidding process in marine industry and stiff competition in industry segment limit margin flexibility - The industry segment remains intensely competitive due to the presence of many small and large players for electrification within the industries. Further, though the entry barriers within the marine segment remain low, it is dominated by a few strong competitors - namely L&T, GE and Siemens, which provide stiff competition for acquiring new contracts. The Solar EPC industry remains competitive; however, the company is planning to bid for only profitable business along with the responsibility of achieving the regulatory approval on the customer itself. The bidding process followed in the marine industry, coupled with competition from strong players for bidding of the same as well as stiff competition in the industry segments, limits the margin flexibility of players in this segment. However, the risk associated with tender bidding business is partly offset with the company status being a nominated vendor for its key customers in the marine segment and given its sound technical capabilities which facilities to acquire new projects based on T1 (technical evaluation) regime in industry segment.

Liquidity position: Adequate

MEIPL had external term loans of Rs. 14.31 crore on its books as on March 31, 2019, this includes term loans of Rs. 1.14 crore from ICICI Bank and Vehicle loan of Rs. 0.29 crore and an LAP from Kotak Mahindra Bank of Rs. 12.89 crore. The company is expected to repay Rs. 3.31 crore in FY2020, Rs. 2.80 crore in FY2021 and Rs. 2.72 crore in FY2022. Though the receivable position remains high, it has improved in H1FY2020. The cash and bank balance of Rs. 14.33 crore as on March 31, 2019, a buffer from the un-utilised ~10% working capital facility (on an average for last 11 months) and the expected enhancement of ~Rs. 20-25 crore in working capital facility in the near term, as well as dues from Tidel Park (solar projects) to the tune of Rs. 8.75 crore which is expected to be realised by January 2020, will support the liquidity profile of the company.

Rating sensitives

Positive triggers: The outlook may be revised to Stable, if the timely execution of project and improvement in receivable position which will improve the liquidity profile, along with a considerable ramp-up in scale of operations and profitability, which will improve the overall financial risk profile of the company.

Negative triggers: Any further delay in execution of project or realization of receivables, or any material liquidity damages, deterioration in profitability and cash accrual of the company, would adversely impact the liquidity profile, and will trigger a rating downgrade.

Analytical approach

Analytical Approach	**Comments**
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone financial

About the company

'Marine Electricals (I) Limited' (MEL) was established in 1978 as a proprietorship firm, which was subsequently converted to a partnership firm and later a private limited company in 2007. KDU Enterprises Pvt. Ltd and Mr. Venkatesh Uchil are the key shareholders of the company, while Mr. Venkatesh Uchil and Mr. Vinay Uchil are the key directors of the company who manage its overall operations and business expansions. MEL is involved primarily in providing customised electrical solutions to the shipping industry. Its head office is in Mumbai with plants located in Mumbai and Goa.

The company has achieved a net profit of Rs. 7.78 crore on an operating income of Rs. 323.23 crore during FY2019 against a net profit of Rs. 11.72 crore on an operating income of Rs. 287.95 crore in FY2018. As per H1FY2020 audited statement, the company has reported a net profit of Rs. 0.80 crore on an operating income of Rs. 83.06 crore.

Key financial indicators

	FY2018	**FY2019**	**H1 FY2020 (Unaudited)**
Operating Income (Rs. crore)	287.95	323.23	83.06
PAT (Rs. crore)	11.72	7.78	0.80
OPBDIT/ OI (%)	8.85%	5.45%	5.47%
RoCE (%)	22.57%	12.89%	6.10%
Total Debt/ TNW (times)	0.44	0.36	0.30
Total Debt/ OPBDIT (times)	1.31	2.56	4.19
Interest Coverage (times)	5.10	2.91	1.19
NWC/ OI (%)	10.99%	30.47%	58.11%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating January 7, 2020	June 20, 2019	April 05, 2019	Chronology of Rating History for the past 3 years: Date & Rating in FY2019	Date & Rating FY2018 December 20, 2017	Date & Rating in FY2017 September 02, 2016
								-		
1	Cash Credit	Long Term	29.00	-	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
2	EPC/EBD/PCFC (Sublimit of CC)	Short Term	(7.00)	-	[ICRA]A3	[ICRA]A3	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+
3	Bank Guarantee	Short Term	118.38	-	[ICRA]A3	[ICRA]A3	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+
4	Letter of Credit (Sublimit of BG)	Short Term	(45.00)	-	[ICRA]A3	[ICRA]A3	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+
5	Proposed Limits	Short Term	3.62	-	[ICRA]A3	[ICRA]A3	[ICRA]A2+	-	[ICRA]A2+	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	29.00	[ICRA]BBB- (Negative)
NA	EPC/EBD/PCFC (Sublimit of CC)	-	-	-	(7.00)	[ICRA]A3
NA	Bank Guarantee	-	-	-	118.38	[ICRA]A3
NA	Letter of Credit (Sublimit of BG)	-	-	-	(45.00)	[ICRA]A3
NA	Proposed Limits	-	-	-	3.62	[ICRA]A3

Source: Marine Electricals (I) Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody’s Investors Service is ICRA’s largest shareholder.

For more information, visit www.icra.in

ICRA Limited

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