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.)

ISO 9001:2015 MGMT. SYS.
ISO 14001:2015 RvA C 071
OHSAS 18001:2007
CERTIFIED BY IRQS

Ref: MEIL/SEC/2020-21/81

07th January, 2021

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, 2021 (enclosed herewith), has reaffirmed the long term ratings as BBB- and revised outlook from Negative to Stable.

Thus our long term ratings stands as [ICRA] BBB- (Stable) and the short term ratings stands as [ICRA] A3.

ICRA has attributed revision in outlook to improvement in financial profile of the company and improvement in the receivable cycle besides a comfortable capital structure.

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

Thanking You.

Yours faithfully,

For Marine Electricals (India) Limited

Marine Electricals (India) Limited MUMBAI

Mr. Vinay Uchil
Chairman and Wholetime Director
DIN:01276871

Encl: As above

January 7, 2021

Marine Electricals (I) Limited: Ratings reaffirmed and outlook revised to Stable; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	0.00	19.83	[ICRA]BBB- (Stable) Assigned
Fund-based Cash Credit	29.00	29.00	[ICRA]BBB- (Stable) Reaffirmed; Outlook revised from Negative to Stable
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	2.79	[ICRA]BBB- (Stable)/[ICRA]A3 Reaffirmed; Outlook revised from Negative to Stable
Total	**151.00**	**170.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of Marine Electricals (I) Limited (MEL) which includes its subsidiaries, step-down subsidiaries and associate companies, while assigning the credit ratings given the corporate guarantee and standby letter of credit extended to the subsidiaries.

The revision of outlook to Stable takes into account the likelihood of improvement in the financial profile, primarily on receivables front following expected completion of NLC India Limited's (NLC) solar project in the current fiscal and realisation of debtors from other key clients, which were outstanding as of H1 FY2021. The top line at standalone levels is also expected to post a rise in FY2021 over the previous fiscal, given that it was down only by 7% in H1FY2021, despite Covid-19 related challenges during the period.

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

The ratings, however, are constrained by the moderate unexecuted order book position of Rs. 312.46 as on November 30, 2020 in MEL and its subsidiary, MEL Power Systems FZC (MEL FZC), translating into 1.36 times the operating income of both companies in FY2020 and a moderate topline for FY2020, post completion of the solar projects. ICRA notes that, going forward, with the company`s focus on the conventional segments, regular inflow of marine and industry orders and timely execution of the same will remain critical to drive revenue growth. The ratings also take into account the high working capital intensive operations as evident from net working capital/operating income of 46% in FY2020 at consolidated level due to elongated debtors and high inventory level. ICRA also notes MEL's vulnerability of profitability to currency fluctuations as well as raw material price fluctuations. Furthermore, the bidding process in marine sector and stiff competition in the industry sector, limit the company's margin flexibility. However, the risk associated with tender bidding business is partly offset by MEL's status as a nominated vendor for its key customers in the marine sector and its sound technical capabilities which facilitates winning of new projects based on T1 (technical evaluation) regime in the industry segment.

Key rating drivers and their description

Credit strengths

Established experience of promoters and technical tie-ups with reputed companies acts 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 business. Furthermore, MEL has technical tie-ups with various companies across the world for advanced systems required in the marine, industrial and the solar sectors, which is likely to improve the growth prospects as well as operational diversification of the company.

Well reputed client base limits counter party risk - MEL has reputed national and international clients from the marine industry such as the Indian Navy, the Indian Cost Guard, L&T Shipbuilding Limited, Schneider Electricals India Private Limited, GE Power Conservation Private Limited, Garden Reach Shipbuilders and Engineers Ltd, Goa Shipyard Ltd, Cochin Shipyard Limited, Reliance Defence and Engineering Limited and several others. Furthermore, MEL has a well reputed clientele in the industrial sector. Its well-reputed clientele reduces the counterparty risk to an extent.

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

Comfortable capital structure – At a consolidated level, the company's capital structure has remained comfortable during the period under review due to strong tangible net worth. The equity infusion of Rs.40.88 crore in October 2018 strengthened the capital structure further. The consolidated debt reduced from Rs.59.22 crore as on March 31, 2019 to Rs. 51.06 crore as on March 31, 2020 due to reduction in working capital borrowings in MEL. The total debt increased marginally to Rs. 52.86 crore as on September 30, 2020 due to increase in term loans availed in MEL during H1FY2021. At a consolidated level, the gearing stood at 0.32 times as on March 31, 2020 and September 30, 2020.

Credit challenges

Moderate unexecuted order book position as on November 30, 2020 – The consolidated order book (MEL and MEL FZC) as on November 30, 2020 stood at Rs.312.46 crore translating into 1.36 times the operating income of both companies in FY2020. The order book comprises marine orders worth Rs. 217.05 crore, industry orders worth Rs. 90.89 crore and the remaining Rs. 4.52 crore from the solar sector. MEL's topline has remained moderate during the period under review. The consolidated revenues declined from Rs. 399.84 crore in FY2019 to Rs. 288.82 crore in FY2020 due to MEL's shift in focus towards conventional business rather than the solar segment. With management's decision to focus on marine and industry segment, healthy order inflow in both the sectors and timely execution of these orders will remain critical for revenue growth.

Elongated receivables leading to high working-capital intensity; however notable reduction expected in Q4FY2021 – At a consolidated level, the net working capital intensity has remained high due to elongated receivables. The net working capital intensity stood at 46% in FY2020, despite stretched creditors. The receivables in MEL have remained elongated in FY2020 due to undue bills in solar EPC project for NLC. While the project handover was expected by September 2019, the project was delayed by multiple reasons, resulting in high receivables. As on September 30, 2020, ~Rs.36.00 crore of the total receivables was outstanding with NLC, a portion of which will be released on successful handover of the project. Apart from the solar project, the company had debtors of Rs. 26.30 crore, outstanding for more than six months from its marine and industrial segments which drove its high net working capital intensity. Nevertheless, notable reduction in debtors is anticipated in Q4 FY2021 following the realisation of Rs.24.00 crore from the solar project and release of ~Rs.13.00 crore (~Rs.7.00 crore realised in Q3 FY2021) from one of the customers in industry segment, which could not be realised due to operational challenges following the pandemic. Going forward, the company's ability to manage its receivables and thus the liquidity will remain critical.

Vulnerability of profits to raw material price fluctuations and foreign currency fluctuations – Exports contributed ~7% to MEL's operating income in FY2020 and around 8% of its raw material was procured from overseas markets. While, a natural hedge provides comfort to an extent, the company's operations remain exposed to currency risk to a certain extent. Further, the raw material consumption cost contributes to ~75-80% of the total cost. While, industry orders are mainly executed within six months, marine orders take longer, ranging from two to five years. Thus, any significant fluctuation in material prices, can adversely impact the company's profit margin. Furthermore, competition from established players in the industry and weak bargaining power against its reputed clientele, limits the company's ability to entirely pass on the impact of raw material price fluctuations and foreign currency fluctuations to the customer.

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 bidding process followed in the marine industry, coupled with competition from strong players bidding for the same projects as well as stiff competition in the industrial segments, limits the margin flexibility of players in this segment. However, the risk associated with the tender bidding business is partly offset by the company's status as a nominated vendor of its key customers in the marine segment and its sound technical capabilities, which facilitates winning new projects based on the T1 (technical evaluation) criteria in industry segment.

Liquidity position: Adequate

MEL's liquidity is adequate with unutilised limits of Rs.10.13 crore as on September 30, 2020. The company does not have any major capex planned and has repayments of Rs.4.13 crore for FY2021, Rs. 4.37 crore for FY2022 and Rs. 4.75 crore for FY2023. While, the average utilisation of fund based limits has remained at 87% during the period from August 2019 to October 2020, some cushion is expected to be generated in Q4FY2021, following anticipated realisation of debtors. Furthermore, with successful commissioning of the NLC project, ICRA expects release of the performance BG of Rs.21.60 crore in the near term and, thereby, the margin money of ~Rs. 2.10 crore maintained against it. The loans in the subsidiaries are in the form of working capital borrowings.

Rating sensitivities

Positive triggers: The rating may be upgraded, if there is a considerable ramp-up in scale of operations and profitability, which will improve the overall financial risk profile of the company.

Negative triggers: Any delay in order execution impacting the company's topline growth or profit margin will lead to a rating downgrade. Any further increase in net working capital intensity at a consolidated level leading to deterioration in the liquidity profile could also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the issuer

About the company

'Marine Electricals (I) Limited' (MEL) was established in 1978 as a proprietorship firm. It was subsequently converted into a partnership firm and later into a private limited company in 2007. The company was listed on the NSE Emerge platform on October 11, 2018 and thereafter on NSE on December 2, 2020. 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 who manage overall operations and business expansions. MEL is primarily involved 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 a few subsidiaries- namely MEL FZC (90% stake), EEMPL (70% stake), Narhari (80% stake), and AECMC (50% stake) which are also engaged in the same business.

At a consolidated level, MEL achieved a net profit of Rs. 9.12 crore on an operating income of Rs. 288.82 crore in FY2020 against a net profit of Rs. 9.15 crore on an operating income of Rs. 399.84 crore in FY2019. As per the consolidated results for H1FY2021, the company has reported a net profit of Rs. 1.61 crore on an operating income of Rs. 93.30 crore.

Key financial indicators (audited)

Consolidated	FY2019	FY2020	H1 FY2021*
Operating Income (Rs. crore)	399.84	288.82	93.30
PAT (Rs. crore)	9.15	9.12	1.61
OPBDIT/OI (%)	5.59%	8.27%	8.61%
PAT/OI (%)	2.29%	3.16%	1.72%
Total Outside Liabilities/Tangible Net Worth (times)	1.34	1.36	1.22
Total Debt/OPBDIT (times)	2.65	2.14	3.29
Interest Coverage (times)	2.67	2.37	2.18

*Unaudited Results

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

			Current Rating (FY2021)			Chronology of Rating History for the past 3 years				
						Date & Rating in FY2020			Date & Rating FY2019	Date & Rating in FY2018
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating 7-Jan-2021	7-Jan-2020	20-Jun-2019	5-Apr-2019	-	20-Dec-2017
1	Cash Credit	Long-term	29.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Positive)
2	Term Loans	Long-term	19.83	16.98	[ICRA]BBB- (Stable)	-	-	-	-	-
3	EPC/EBD /PCFC (Sublimit of CC)	Short-term	(7.00)	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A2+	-	[ICRA]A2+
4	Bank Guarantee	Shor-term	118.38	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A2+	-	[ICRA]A2+
5	Letter of Credit (Sublimit of BG)	Shor-term	(45.00)	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A2+	-	[ICRA]A2+
6	Proposed Limits	Shor-term	2.79	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A2+	-	[ICRA]A2+

**Outstanding as on September 30, 2020; Amount in Rs. crore*

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 click here

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	Term Loan	Dec 2018	10%	Apr 2024	13.41	[ICRA]BBB- (Stable)
NA	Term Loan	July 2020	7.4%	Jan 2024	2.80	[ICRA]BBB- (Stable)
NA	Term Loan	Sep 2020	8%	Sep 2024	2.16	[ICRA]BBB- (Stable)
NA	Term Loan	Sep 2020	11.55%	Mar 2021	1.47	[ICRA]BBB- (Stable)
NA	Cash Credit	-	-	-	29.00	[ICRA]BBB- (Stable)
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	-	-	-	2.79	[ICRA]A3

Source: Marine Electricals (I) Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Eltech Engineers Madras Private Limited	70%	Full consolidation
MEL Power Systems FZC	90%	Full consolidation
STL SRL	67.50%	Full Consolidation
Technology Ventures Middle East (FZC)	45% (Upto October 20, 2019) 25% (wef October 21, 2019)	Full Consolidation Equity Method
Narhari Engineering Works	80%	Proportionate Consolidation
Automatic Electronic Controls Manufacturing Co.	50%	Proportionate Consolidation

Analyst Contacts

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Rupa Pandey
+91 22 6169 3456
rupa.pandey@icraindia.com

Pragya Sharma
+91 22 6114 3454
pragya.sharma@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

Media and Public Relations Contact

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 020 6606 9999