Marine Electricals (India) Limited

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Website : www.marineelectricals.com CIN : L31907MH2007PLC176443 (Formerly known as Marine Electricals (I) Pvt. Ltd.)

ISO 9001 : 2015
ISO 14001 : 2015
ISO 45001 : 2018
CERTIFIED BY IRQS

Ref: MEIL/SEC/2021-22/61

24th January, 2022

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 the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 regarding upgradation of credit ratings by ICRA Limited ("ICRA")

Pursuant to Regulation 30 read with Schedule III Part A of SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, we are pleased to inform you that ICRA Limited ("ICRA") vide its letter dated 24th January, 2022, has upgraded the long term ratings and the short term ratings as under:-

a) **For long term ratings** - "ICRA BBB" with "Stable" outlook upgraded from ICRA BBB - with "Stable" outlook.

b) **For the Short ratings** - "ICRA A3+" upgraded from ICRA A3.

ICRA has attributed positive revision in outlook to improved order book position and improved financial profile in H1 FY2022 led by pick up in revenues and recovery of pending receivables & other factors.

The press release of ICRA dated January, 24, 2022 is available on our website: www.marineelectricals.com

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

Thanking You.

Yours faithfully,

For Marine Electricals (India) Limited

Mitali Ambre
Company Secretary & Compliance Officer
ACS: 60296

January 24, 2022

Marine Electricals (I) Limited: Ratings upgraded to [ICRA]BBB(Stable)/[ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based Cash Credit	29.00	36.00	[ICRA]BBB(Stable); Upgraded from [ICRA]BBB-(Stable)
Short-term: Fund-based EPC/EBD/PCFC (Sublimit of Cash Credit)	(7.00)	(5.00)	[ICRA]A3+; Upgraded from [ICRA]A3
Short-term: Non-fund based Bank Guarantee (Sublimit of Cash Credit)	-	(7.00)	[ICRA]A3+; Upgraded from [ICRA]A3
Long-term: Fund-based Term Loans	19.83	18.37	[ICRA]BBB(Stable); Upgraded from [ICRA]BBB-(Stable)
Short-term: Non-fund based Bank Guarantee	118.38	111.38	[ICRA]A3+; Upgraded from [ICRA]A3
Short-term: Non-fund based Letter of Credit (Sublimit of Bank Guarantee)	(45.00)	(50.00)	[ICRA]A3+; Upgraded from [ICRA]A3
Short-term Unallocated	2.79	4.25	[ICRA]A3+; Upgraded from [ICRA]A3
Total	**170.00**	**170.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade factors in the improved order book position of Marine Electricals (I) Limited (MEL) of Rs. 407 crore approximately as on November 30, 2021 which provides adequate revenue visibility in the near term. ICRA notes the company's exit from the loss-making solar segment, which is likely to improve the overall profitability going forward. Improved order flows and faster execution of the same led to a robust YoY revenue growth of 83% in H1 FY2022. This, coupled with improved collections, including the recovery of the stuck receivables in the solar segment, led to reduced debt levels in H1 FY2022, resulting in an improved financial profile.

The ratings continue to draw comfort from the established track record of MEL in providing integrated electrical solutions to the marine and industry sectors. Furthermore, its well reputed customers in the Government and private sector reduce the counterparty risk to an extent. The ratings also take into consideration MEL's comfortable capital structure, given its strong net worth position and low debt levels due to reliance on non-fund based facilities.

The ratings, however, remain constrained by MEL's high working capital intensive operations as is evident from net working capital-to-operating income (NWC/OI) ratio of 40% in H1 FY2022 due to its elongated receivable cycle. While the order book position has improved, timely execution of the same remains critical as any major delays could impact the revenues and profitability, given the largely fixed price nature of contracts in the marine segment. Furthermore, the competitive bidding process in marine sector and stiff competition in the industry sector, limits the company's pricing 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. MEL's profit margins also remain vulnerable to currency fluctuations arising from exports, though a natural hedge via imports mitigates the risk to a large extent.

The Stable outlook on [ICRA]BBB rating reflects ICRA's opinion that the company will continue to benefit from its established position in the market as well as improved order book position.

Key rating drivers and their description

Credit strengths

Improved order book position – The company's order book position improved to Rs. 407 crore approximately as on November 30, 2021 (~2 times of the standalone revenues in FY2021) aided by higher order inflows from the marine and industry segment. While the orders in the industry segment typically get completed within a period of twelve months, those in the marine segment involve longer execution time of two to three years. However, any delay in execution of projects from the customer's end could delay revenue booking for the company, thereby impacting its profitability and hence remains a key monitorable. ICRA also notes the company's exit from loss-making solar segment which is likely to improve the overall profitability going forward.

Improved financial profile in H1 FY2022 led by pick-up in revenues and recovery of pending receivables - The revenues at the consolidated level stood at Rs. 172.5 crore in H1 FY2022 compared to Rs. 251.7 crore in FY2021, reflecting growth of 37% on an annualised basis. This was mainly on account of higher order inflows and faster execution of the same. This, coupled with improved collections, including the recovery of the stuck receivables worth ~Rs. 20 crore in the solar segment, led to reduction in debt to Rs. 36.6 crore as on September 30, 2021 from Rs. 58.3 crore as on March 31, 2021. This further led to improvement in the financial profile, with total debt-to-operating profit ratio and net cash accruals vis-à-vis total debt stood improving to 1.6 times and 48% respectively in H1 FY2022 compared to 3.5 times and 18% respectively in H1 FY2021. The interest coverage also improved to 3.2 times in H1 FY2022 compared to 2.1 times in H1 FY2021. The company's capital structure also remains comfortable as evident in a gearing of 0.2 times as on September 30, 2021, given its healthy net worth position as well as low debt levels due to reliance on non-fund based facilities.

Established experience of promoters; technical tie-ups with reputed companies - 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 and industrial sectors, which improves the growth prospects as well as operational diversification of the company.

Reputed and diversified client base limits counter-party risk – MEL has reputed national and international clients in the marine industry such as the Indian Navy, the Indian Cost Guard, Goa Shipyard Limited, Mazagon Dock Shipbuilders Limited, Garden Reach Shipbuilders and Engineers Limited, Cochin Shipyard, among others. Furthermore, MEL has a strong customer base in the industrial sector which includes reputed corporates across various sectors. Its well-reputed and diversified clientele reduces the counterparty risk to an extent.

Credit challenges

High working capital intensity of operations – The company's operations are working capital intensive in nature due to an elongated receivables cycle. The working capital intensity of operations, although reduced to 40% in H1 FY2022 from 63% in FY2021 due to recovery of a portion of pending receivables, continues to remain high. The receivables as on September 30, 2021 include pending receivables of solar project worth Rs. 16.0 crore, which are expected to be recovered in H1 FY2023 once the performance testing phase is completed. Apart from these, the overdue receivables outstanding for more than 180 days stood at Rs. 13.9 crore (reflecting 12% of receivables at the standalone level as on September 30, 2021). However, ICRA notes that the same reduced from Rs. 26.3 crore as on September 30, 2020. Going forward, the company's ability to manage its working capital efficiently and thereby liquidity will remain critical.

Susceptible to foreign currency and raw material price fluctuations - Exports contributed approximately 12% to MEL's revenues in FY2021 and around 19% of its raw materials was imported. While a natural hedge provides comfort to a large extent, the company's operations remain exposed to currency risk to an extent. Furthermore, the raw material contributes to 70-80% of the total cost of the company. While the industry orders are mainly executed within six to twelve months, marine orders involve a longer execution time of two to three years. Thus, any significant fluctuation in raw material prices can adversely impact the company's profit margins. 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 pricing flexibility - The industry segment remains intensely competitive due to the presence of many players for electrification. Furthermore, the company faces stiff competition from companies like Larsen & Toubro (L & T), General Electric (GE) and Siemens for acquiring new contracts. The bidding process followed in the marine industry, coupled with competition from strong players as well as stiff competition in the industrial segments, limits the pricing flexibility for MEL. However, 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, mitigates the risk to some extent.

Liquidity position: Adequate

The company's liquidity position is **adequate**, supported by unutilised working capital limits of Rs. 18.7 crore as on November 30, 2021 with adequate drawing power. The cash generation in the business is likely to be sufficient to service the debt repayment obligations of Rs. 5.3 crore in FY2022, Rs. 4.4 crore in FY2023 and Rs. 4.1 crore in FY2024. While the average fund based working capital limit utilisation stood at 65% during the 12-month period ended November 2021, the same has reduced to 30-40% from August 2021 following the part recovery of solar project receivables. There are no major capital expenditure requirements (apart from the routine ones) over the near to medium term. The unencumbered cash and bank balances stood at Rs. 8.6 crore as on September 30, 2021 at the consolidated level.

Rating sensitivities

Positive factors – The ratings may be upgraded, if there is a considerable ramp-up in the scale of operations and profitability, while sustaining the healthy credit and liquidity profile. Specific credit metric that could lead to a ratings upgrade includes ROCE remaining above 15% on a sustained basis.

Negative factors – Pressure on ratings could arise if there is a decline in the company's revenues and/or profitability which leads to a deterioration in the financial profile. An increase in the working capital intensity leading to a deterioration in the liquidity profile could also trigger a downgrade. Specific credit metric that could lead to a ratings downgrade includes interest cover remaining below 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MEL. As on March 31, 2021, the company had 4 subsidiaries, 1 step-down subsidiary and 1 joint venture which are enlisted in Annexure-2.

About the company

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 02, 2020. Mr. Venkatesh Uchil and Mr. Vinay Uchil are the promoters/key directors who manage the overall business operations.

MEL primarily provides customised electrical solutions to the marine and non-marine sectors. Its head office is in Mumbai, with manufacturing facilities in Mumbai and Goa. The company has four subsidiaries, one step down subsidiary and one associate as on March 31, 2021. These include MEL Power Systems FZC (90% stake), Eltech Engineers Madras Private Limited (70% stake), Narhari Engineering Works (80% stake), STI Company SRL (67.5% stake; step-down subsidiary) and one associate, Automatic Electronic Controls Manufacturing Co. (50% stake; associate) which are in a similar line of business. In October 2020, MEL acquired a 74% stake in Evigo Charging Consultants Private Limited, which undertakes electric vehicle charging. In October 2021, the company announced the acquisition of 75% stake in Xanatos Marine Limited, which is expected to be completed in FY2023.

Key financial indicators – Consolidated

	FY2020 (Audited)	FY2021 (Audited)	H1 FY2022 (Unaudited Results)
Operating Income (Rs. crore)	263.0	251.7	172.5
PAT (Rs. crore)	5.9	13.5	4.6
OPBDIT/OI (%)	8.6%	11.1%	6.7%
PAT/OI (%)	2.2%	5.4%	2.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.3	1.1
Total Debt/OPBDIT (times)	2.5	2.1	1.6
Interest Coverage (times)	2.0	3.1	3.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: MEL; All ratios as per ICRA calculations

Key financial indicators – Standalone

	FY2020 (Audited)	FY2021 (Audited)	H1 FY2022 (Unaudited Results)
Operating Income (Rs. crore)	206.0	200.3	147.9
PAT (Rs. crore)	4.1	7.4	3.2
OPBDIT/OI (%)	8.1%	11.5%	5.3%
PAT/OI (%)	2.0%	3.7%	2.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.2	1.0
Total Debt/OPBDIT (times)	2.4	2.1	1.7
Interest Coverage (times)	1.9	3.0	2.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: MEL, All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020			Date & Rating in FY2019
					24-Jan-2022	07-Jan-2021	07-Jan-2020	20-Jun-2019	05-Apr-2019	-
1	Fund-based Cash Credit	Long-term	36.00	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB+ (Stable)	-
2	Fund-based EPC/EBD/PCFC	Short-term	(5.00)	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A2+	
3	Non-fund based Bank Guarantee	Short-term	(7.00)	-	[ICRA]A3+	-	-	-	-	
4	Fund-based Term Loans	Long-term	18.37	13.79*	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-	-	-	
5	Non-fund based Bank Guarantee	Short-term	111.38	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A2+	
6	Non-fund based Letter of Credit	Short- term	(50.00)	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A2+	
7	Unallocated	Short-term	4.25	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A2+	

*as on March 31, 2021

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term: Fund-based Cash Credit	Simple
Short-term: Fund-based EPC/EBD/PCFC (Sublimit of Cash Credit)	Simple
Short-term: Non-fund based Bank Guarantee (Sublimit of Cash Credit)	Very Simple
Long-term: Fund-based Term Loans	Simple
Short-term: Non-fund based Bank Guarantee	Very Simple
Short-term: Non-fund based Letter of Credit (Sublimit of Bank Guarantee)	Very Simple
Short-term Unallocated	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, is available on ICRA's 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	Fund-based Cash Credit	-	-	-	36.00	[ICRA]BBB(Stable)
NA	Fund-based EPC/EBD/PCFC	-	-	-	(5.00)	[ICRA]A3+
NA	Non-fund based Bank Guarantee	-		-	(7.00)	[ICRA]A3+
NA	Fund-based Term Loans	FY2019	7-10%	FY2024	18.37	[ICRA]BBB(Stable)
NA	Non-fund based Bank Guarantee	-	-	-	111.38	[ICRA]A3+
NA	Non-fund based Letter of Credit	-	-	-	(50.00)	[ICRA]A3+
NA	Unallocated	-	-	-	4.25	[ICRA]A3+

Source: *MEL*

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

Annexure-2: List of entities considered for consolidated analysis

Sr.	Entity Name	Consolidation Approach
1	Marine Electricals (I) Limited	Full consolidation
2	MEL Power Systems FZC	Full consolidation
3	STL SRL	Full consolidation
4	Eltech Engineers Madras Private Limited	Full consolidation
5	Narhari Engineering Works	Full consolidation
6	Evigo Charging Consultants Private Limited	Full consolidation
7	Automatic Electronic Controls Manufacturing Co.	Proportionate consolidation

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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.

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