



Marine Electricals (India) Limited

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Website : www.marineelectricals.com CIN : U31907MH2007PLC176443 (Formerly known as Marine Electricals (I) Pvt. Ltd.)



To,
National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051.
Symbol: MARINE

Date : 26th June 2019

Dear Sir/Madam,

Subject: Clarification with respect to Intimation under Regulation 30 of Securities and Exchange Board of India (Listing Obligation and Disclosure Requirements) Regulations, 2015

With respect to email received on 26th June 2019 for clarifying the reasons published by rating agency for downward rating, attached is the rationale submitted by ICRA for the downgrade in the rating.

Kindly take the same on the record and oblige.

Thanking you,

Yours faithfully,

For Marine Electricals (India) Limited

Mr. Rohit Shetty
Chief Financial Officer



June 20, 2019

Marine Electricals (I) Limited: Long-term and short-term ratings downgraded; outlook revised to Negative

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); Downgraded from [ICRA]BBB+(Stable); Outlook revised to Negative from Stable
Fund-based – EPC/EBD/PCFC (Sub-limit of Cash Credit)	(7.00)	(7.00)	[ICRA]A3; Downgrade from [ICRA]A2+
Non-fund Based – Bank Guarantee	118.38	118.38	[ICRA]A3; Downgrade from [ICRA]A2+
Non-fund Based – Letter of Credit	(45.00)	(45.00)	[ICRA]A3; Downgrade from [ICRA]A2+
Unallocated limited	3.62	3.62	[ICRA]A3; Downgrade from [ICRA]A2+
Total	151.00	151.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in the rating as well as in the outlook for Marine Electricals (I) Limited ('MEL' or 'the Company') reflects the deterioration in liquidity profile owing to significant build-up in receivables emanating from the considerable delays in commissioning of sizable solar power project in hand. Given the back-ended nature of payments for the project, further delay compared to last rating exercise, is only expected to elongate the receivable cycle, leading to impact on the liquidity profile. ICRA notes that, during May 2019, there was an instance of LC devolvement of Rs. 0.50 crore related to Solar division transaction which however was cleared within stipulated time. This happened mainly on account of operational lapses in funding the said account from another bank account, though on an aggregate basis adequate liquidity was available to service the same. The rating also reflects the weakening of the company's operating profitability on account of cost overruns linked to the solar projects and its subsequent impact on the coverage indicators.

The ratings, however, continues to draw comfort from the established track record of MEL in providing integrated electrical solutions to marine and non-marine segments. Further, its well-diversified clientele comprising of several reputed customers in the Government as well as private-sector entities reduces the counterparty risk to an extent. The ratings also take into consideration the lightly leveraged capital structure, and moderate coverage indicators.

Outlook: Negative

The negative outlook reflects the likely pressure on the company's liquidity position emanating from significantly high receivable which is linked to the commissioning and handover of the project. Any further delay in execution of project or realization of receivables, or any material liquidity damages which impacts the profitability and cash accrual of the company, would adversely impact the liquidity profile from its present level, and will trigger a rating downgrade. The outlook may be revised to Stable, if timely execution of project and realisation of receivables which will improve the working capital management, and considerable ramp-up in scale of operations along with its profitability, which will improve the overall financial risk profile of the company.

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, non-marine industry and solar segment, which is likely to improve the growth prospects as well as operational diversification of the company.

Well reputed and moderately diversified client base – MEL has reputed national and international clientele from the marine industry like the Indian Navy, the Indian Coast 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 within the non-marine segment. In the solar segment, the company has projects from Government entities like NLC India Limited and TIDEL Park Limited. In addition, the top ten customers contributing close to 40-50% of the total revenues during last two years, indicates a well-diversified portfolio. The well-reputed and diversified clientele reduces the counterparty risk for the company.

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), Automatic Electronic Controls mfg. co. (AECMC) and Narhari Engineering Works (NaEng). MEL FZC is involved in similar operations in the 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, and also provides operational support to MEL.

Comfortable capital structure– The capital structure of the company has continued to remain comfortable as represented by a gearing of 0.34 times as on March 31, 2019. This is primarily due to amount of Rs. 42.87 crore raised through IPO in October 2018. The equity shares of the company got listed on Emerge – Small and Medium Enterprises (SME) platform of the National stock exchange (NSE) in October 2018.

Credit challenges

Build-up in receivables leading to increase in working-capital intensity, timely closure of the solar projects critical for realisation of receivables and 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 May 2019 and handover by Q1FY2020. However, there has been a further delay in execution and the same are likely to be completed by July 2019 and handover by September 2019. A significant amount of money is stuck as receivables, since it is retained by the customers and is due for release, post commissioning, and handover for the solar projects. Of the total debtors outstanding of Rs. 137.23 crore, the debtors outstanding for more than six months remains considerably high at Rs. 70.88 crore as on March 31, 2019. Considerable high receivables for more the six months lead to working capital intensive nature of the business as indicated by NWC/OI of 28.70% during FY2019. Commissioning of the project is key for the improvement of the liquidity profile of the company.

Moderate unexecuted order book position – The outstanding unexecuted order book position of the company has continued to remain moderate at Rs. 254.51 crore in May 2019, which is 0.78 times FY2019 operating income. This is primarily due to the gradual execution of its existing solar projects, with no further addition of new solar projects during the year and moderate growth in the order book position in the marine and non-marine segment. Moderate unexecuted order book position as on May 2019 provides limited growth visibility in the near term.

Weakening of operating profitability due to cost overruns linked to solar project – The profitability of the company as represented by OPM declined to 5.54% in FY2019 from 8.85% in FY2018 owing to losses in solar segment due escalated raw material costs and unfavourable forex fluctuations during FY2019. Decrease in OPM has simultaneously led to

decrease in NPM to 2.41% in FY2019 from 4.07% in FY2018. Further, due to delays in execution of the projects, any invocation of the LD clause by customers would hit the company's profitability.

Vulnerability of profits to raw material price fluctuations and foreign currency fluctuations – Exports contributed ~4.00 – 6.00% of its revenues during last two years, while imports of raw material increased from ~7.58% in FY2018 to ~32.44% in the current year, primarily due to imports of solar modules for solar projects undertaken. Due to the same, the company's profitability remains vulnerable, given the volatile nature of the Indian rupee, which remained fluctuating between Rs.63.33 a dollar to Rs 74.35 a dollar during the last 24 months. Further, the raw material consumption cost contributes to ~60-70% 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 and solar power industry and stiff competition in non-marine segment limit margin flexibility - The non-marine segment remains intensely competitive due to the presence of many small and large players for electrification within industries. Further, though the entry barriers within the marine and solar- power segment remains low, it is dominated by few strong competitors - namely L&T, GE and Siemens, which provide stiff competition for acquiring new contracts. The bidding process, followed by entities in the marine and the solar power segment, coupled with competition from strong players for bidding of the same, limits the margin flexibility of the company. MEL's ability to achieve adequate margins within the solar power segment remains to be seen.

Liquidity position

MEL had external term loans of Rs. 14.31 crore on its books as on March 31, 2019. The same is expected to have an annual term loan repayment obligation of ~Rs. 3.85 crore in FY2020, ~Rs. 2.48 crore in FY2021 and ~Rs. 2.75 crore in FY2022. Though NCA is more than sufficient for debt repayments, build-up of receivables in the solar segment, has impacted the liquidity profile, leading high utilization levels. However, dues from one of the other solar projects to the tune of Rs. 12.40 crore is expected to be realized by next month, will in turn support the liquidity profile. The buffer from the unutilised ~10% working capital facility and unencumbered cash and bank balance of ~Rs. 3.02 crore as on March 31, 2019, also provide some comfort to the liquidity.

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.

In FY2019, the company reported a net profit of Rs. 7.73 crore on an operating income of Rs. 323.23 crore, against a net profit of Rs. 11.72 crore on an operating income of Rs. 287.95 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	287.95	323.23
PAT (Rs. crore)	11.72	7.78
OPBDIT/ OI (%)	8.85%	5.54%
RoCE (%)	22.57%	13.38%
Total Debt/ TNW (times)	0.44	0.34
Total Debt/ OPBDIT (times)	1.21	2.37
Interest Coverage (times)	5.10	2.82
NWC/ OI (%)	10.99%	28.70%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2020)						Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
						-	December 2017	September 2016
1 Cash Credit	Long Term	29.00		[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]A2+	-	[ICRA]A2+	[ICRA]A2+
3 Bank Guarantee	Short Term	118.38		[ICRA]A3	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+
4 Letter of Credit (Sublimit of BG)	Short Term	(45.00)		[ICRA]A3	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+
5 Proposed Limits	Short Term	3.62		[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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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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