

Press Release

Chhabi Electricals Private Limited

August 27, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.16.00 Cr.
Long Term Rating	ACUITE B/Stable (Reaffirmed)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B**' (**read as ACUITE B**) and short-term rating of '**ACUITE A4**' (**read as ACUITE A4**) on the Rs.16.00 crore bank facilities of CHHABI ELECTRICALS PRIVATE LIMITED (CEPL). The outlook is '**Stable**'.

The rating reaffirmation is based on performance being in line with projections and experienced management. The company recorded a revenue figure of Rs.20 crore for FY2019 (provisional) and stagnant for the three years. It has modest unexecuted order book of about Rs.7 crore as of July 2019 and its revenue profile is expected to be at similar levels of FY2019. However, the rating has been constrained on account of stretched liquidity and occasional overdrawings in its cash credit account though regularized within 5 to ten days.

Chhabi Electricals Private Limited (CEPL) is a Jalgaon-based company incorporated in 1978 to take over the existing business of a proprietorship firm established in 1965. It is promoted by Mr. Chhabiraj Rane who possesses three decades of experience in the industry. The company is engaged in manufacturing of electronic components such as transformers, battery charger, modular DC systems, etc. and trading of batteries.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of CEPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

Mr. Chhabiraj Rane, who has been engaged in the same industry for more than three decades, promotes CEPL. The senior management team is ably supported by a strong line of mid-level managers. The extensive experience of the promoters is reflected through its established relationship with customers and suppliers. The key customers/suppliers of the company include reputed names such as National Thermal Power Corporation (NTPC), Bharat Heavy Electricals Limited (BHEL), and Larsen & Toubro Limited among others with major concentration in revenue. CEPL has an unexecuted order book position of about Rs.7 crore to show moderate revenue visibility. Acuité believes that CEPL will be benefitted by the extensive experience of the promoters in the medium term.

Weaknesses

- **Below average financial risk profile**

CEPL's financial risk profile is below average, marked by a modest networth, high gearing (debt-to-equity) and total outside liabilities to tangible networth (TOL/TNW) and below average debt protection measures. CEPL's networth has remained modest at around Rs.4.48 crore as on March 31, 2019 (provisional). Though, the revenues of the company are expected to remain in the range of Rs.20-25 crore over the medium term, the operating margins in the range of 8-8.5 per cent are likely to lead to limited accretion to reserves. The gearing ratio stood below average and stood at 2.47 times for FY2019 (provisional) against 2.02 times in FY2018. TOL/TNW stood below average at about 5.95 times in FY2019 (provisional) against 4.98 times in FY2018. The company has no plans of any majorly funded debt funded capital expenditure in the medium term. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood at 1.18

times and 0.03 times in FY2019 (provisional) respectively. The company reported cash accruals of Rs.0.30 crore for FY2019 (provisional). Acuité believes that the financial risk profile is expected to remain on a similar range considering the modest net worth.

- **Working capital intensive operations**

CEPL's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of around 470 days as on March 31, 2019 (provisional). The company's inventory days stood at 165 days in FY2019 (provisional). The company gets a limited credit period from its suppliers, leading to higher reliance on working capital limits. Further, it allows a credit period of 90 days to its customers although which stood at 307 days in FY2019 (provisional) considering the nature of business and terms with customers. CEPL's working capital limits over the last six months period through July 2019 was utilised at an average of 99 per cent, while the peak utilisation was high at around 100 per cent during the same period. Acuité expects the operations of the company to remain working capital intensive on account of the high inventory levels maintained by the company to cater to spot orders or payments linked to milestone achievements.

- **Exposure related to nature of product and sectoral performance**

Considering the slowdown in the power sector, the sub-industries associated to this sector are expected to remain affected resulting in sticky turnover pattern and the business cycle.

Liquidity Position:

Liquidity profile of the company is stretched reflected by working capital intensive operations with high GCA, fully utilised bank lines and modest accruals. It has reported cash accruals of Rs.0.30 crore in FY2019 (provisional). It is expected to generate cash accruals in the similar range of Rs.0.27 to 0.30 crore over the medium term against which its repayment obligations are nil. However, liquidity profile is constrained by its working capital limits which are utilised at about 99 per cent for the last six months through July 2019. There are instances of overdrawning in the CC account, however, regularised within ten days; overdraws are majorly at month end with debit of interest and debit of LC bills. Overdrawing is to the tune of Rs.5 to 10 lakhs. The current ratio stood comfortable at 1.21 times in FY2019 (provisional). Acuité believes that the liquidity profile will remain stretched with decreasing cash accruals and working capital intensive operations.

Outlook: Stable

Acuité believes that CEPL will maintain a 'Stable' outlook over the medium term on account of experienced management. The outlook may be revised to 'Positive' in case of significant improvement in revenues while maintaining the profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in the financial risk profile caused by losses leading to decrease in networth or elongated working capital cycle leading to further stretch in its liquidity.

About the Rated Entity - Key financials

	Unit	FY19 (Prov)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	20.96	19.46	21.78
EBITDA	Rs. Cr.	1.77	1.63	1.86
PAT	Rs. Cr.	0.08	0.08	0.13
EBITDA Margin	(%)	8.43	8.37	8.53
PAT Margin	(%)	0.38	0.40	0.61
ROCE	(%)	11.55	10.74	11.68
Total Debt/Tangible Net Worth	Times	2.47	2.02	2.25
PBDIT/Interest	Times	1.18	1.24	1.27
Total Debt/PBDIT	Times	5.95	5.14	4.98
Gross Current Assets (Days)	Days	470	417	275

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entities in Manufacturing sector- <https://www.acuite.in/view-rating-criteria-4.htm>
- Entities in Trading sector- <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
29-July-2019	Cash Credit	Long Term	8.00*	ACUITE B (Indicative)
	Bank Guarantee/ Letter of Guarantee	Short Term	4.00	ACUITE A4 (Indicative)
	Letter of Credit	Short Term	3.50	ACUITE A4 (Indicative)
	Proposed Bank Facility	Short Term	0.50	ACUITE A4 (Indicative)
26-June-2018	Cash Credit	Long Term	8.00*	ACUITE B/Stable (Assigned)
	Bank Guarantee/ Letter of Guarantee	Short Term	4.00	ACUITE A4 (Assigned)
	Letter of Credit	Short Term	3.50	ACUITE A4 (Assigned)
	Proposed Bank Facility	Short Term	0.50	ACUITE A4 (Assigned)

*includes sublimit of packing credit and FDBP/FUDBP to the extent of Rs.0.50 crore each.

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00*	ACUITE B/Stable (Reaffirmed)
Bank Guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A4 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4 (Reaffirmed)

*includes sublimit of packing credit and FDBP/FUDBP to the extent of Rs.0.50 crore each.

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About Acuité Ratings & Research:

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