

Press Release

Chhabi Electricals Private Limited

November 23, 2020

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

Acuite has reaffirmed the long-term rating of '**ACUITE B**' (read as **ACUITE B**) and the short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 16.00 crore bank facilities of Chhabi Electricals Private Limited. The outlook is '**Stable**'.

The rating reaffirmation is based on the continued moderate scale of operations, improved profitability margins and experienced management. The company recorded a revenue figure of Rs.14.62 Cr for FY2020 compared to Rs.20.84 Cr in the previous year. It has a modest unexecuted order book of ~Rs.6 Cr to be completed by March, 2021 and its revenue profile is expected to be at similar levels of FY2020. However, the rating has been constrained on account of stretched liquidity and fully utilised cash credit account.

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

Acuite has considered the standalone business and financial risk profiles of CEPL for arriving 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 a major concentration in revenue. CEPL has an unexecuted order book position of ~ Rs.6 Cr to show moderate revenue visibility. Acuite 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 network, high gearing (debt-to-equity) and total outside liabilities to tangible network (TOL/TNW) and below average debt protection measures. CEPL's network has remained modest at around Rs.4.61 Cr as on March 31, 2020. Though the revenues of the company are expected to remain in the range of Rs.12-15 Cr over the medium term, the operating margins in the range of 11-12 per cent are likely to lead to modest accretion to reserves. The gearing ratio though improved, stood below average and stood at 2.18 times for FY2020 against 2.45 times in FY2019. TOL/TNW stood below average at about 5.53 times in FY2020 against 5.92 times in FY2019. The company has no plans for 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 FY2020, respectively. The company reported cash accruals of Rs.0.29 Cr for FY2020. Acuite 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 661 days as on March 31, 2020. The company's inventory days stood at 215 days in FY2020. 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 442 days in FY2020 considering the nature of business and terms with customers. CEPL's working capital limits over the last six months period through October, 2020 was utilised fully, while the peak utilisation was high at around 100 per cent during the same period. Acuite 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.

Rating Sensitivities

1. Growth in the operations with sustained improvement in the profitability margins
2. Stretch in the working capital management leading to any negative impact on the liquidity profile

Liquidity: Stretched

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.0.29 Cr in FY2020. It is expected to generate a cash accruals in the similar range of Rs.0.20 to 0.30 Cr over the medium term against which its repayment obligations are nil. However, liquidity profile is constrained by its working capital limits which are utilised fully for the last six months through October, 2020. The current ratio stood comfortable at 1.17 times in FY2020. Acuite believes that the liquidity profile will remain stretched with decreasing cash accruals and working capital intensive operations.

Outlook: Stable

Acuite 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 a 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	14.62	20.84
PAT	Rs. Cr.	0.10	0.11
PAT Margin	(%)	0.72	0.51
Total Debt/Tangible Net Worth	Times	2.18	2.45
PBDIT/Interest	Times	1.18	1.20

Status of non-cooperation with previous CRA

Brickworks Ratings, vide its press release dated January 23, 2020 had denoted the rating of Chhabhi Electricals Private Limited as 'BWR C+; ISSUER NOT CO-OPERATING' on account of lack of adequate information required for monitoring the ratings.

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Upto last three years)

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

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

***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	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	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 Cr

Contacts

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About Acuité Ratings & Research:

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