

Press Release

Stambh Power System Private Limited

October 04, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 29.00 Cr.
Long Term Rating	ACUITE BBB-/ Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 29.00 crore bank facilities of Stambh Power System Private Limited. The outlook is '**Stable**'.

Incorporated in 2000, Lucknow-based, Stambh Power System Private Limited (SPSPL) was initially engaged in manufacturing of power electronics and electrical control equipment such as stabilizers, inverters, UPS, isolation transforms, among others. From 2012, the company started undertaking turnkey EPC contracts such as EPC of Infrastructure Electrification, Substation, EPC of Rural Electrification and Urban Electrification, EPC of Underground Cabling, among others. The company is promoted by Mr. Rajesh Khanna and Mr. Sanjay Kumar. The company caters to both government and private companies; however, it derives around 65 per cent of revenue from government projects.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SPSPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operation**

The promoters of the company have experience of more than two decades in manufacturing of electrical appliances. The company has been undertaking EPC contracts from FY2012 for various central and state government schemes such as Integrated Power Development Scheme (IPDS) and PSUs such as Dakshinanchal Vidhyut Vitran Nigam Limited (DVVNL), Madhyanchal Vidut Vitran Nigam Limited (MVVNL). Further, the company also undertakes contracts for private players such as Larsen and Toubro among others. The reputed customers represent minimal risk of default from customer's side.

Acuité believes that SPSPL will sustain its existing business profile on the back of experienced management.

- **Healthy financial risk profile**

The company has a healthy financial risk profile marked by net worth of Rs.16.91 crore as on 31 March, 2019 (Provisional) compared to Rs. 9.96 crore in the previous year. The debt-to-equity ratio improved and stood at 0.47 times as on 31 March, 2019 (Provisional) as against 1.06 times as on 31 March, 2018 mainly due to increase in total net worth of the company as against low reliance on bank borrowings. The total debt as on 31 March 2019 (provisional) is Rs.8.00 crore and it mainly consists of Rs. 0.10 crore of long term debt, Rs. 3.21 crore of unsecured loan and Rs.4.69 crore of short term debt. Further, the Interest coverage ratio stood at 8.73 times for FY2019 (Provisional) and 9.83 times for FY2018. The DSCR stood at 5.75 times for FY2019 (Provisional) as against 7.39 times for FY2018. The NCA/TD (Net Cash Accrual to total debt) stood at 0.73 times for FY2019 (Provisional) as against 0.43 times for FY2018.

Acuité believes that the financial risk profile of the company will remain healthy backed by moderate net cash accruals and in absence of any major debt funded capex in near to medium term.

Weaknesses

- **Working capital intensive operations**

The company has intensive working capital operations marked by gross current assets (GCA) of 201 days for FY2019 (Provisional) as against 172 days in the previous year. Further, the GCA days are mainly dominated by debtors that stood high at 162 days for FY2019 (Provisional) as against 140 days for FY2018.

The main reason for the high debtor's was due to major amount of billing done in the month of March 2019. Inventory level stood at 22 days for FY2019 (Provisional) as against 24 days for FY2018. Although due to the enhancement in the cash credit limit from Rs. 3.50 crore to Rs. 7.50 crore the working capital limits over the last eleven months period was utilized at an average of 61 per cent, while the peak utilization was high at around 90 per cent during the same period.

• Low revenue visibility

SPSPL's operating income for FY2019 (Provisional) stood at Rs. 72.55 crore as against Rs. 65.31 crore for the FY2018. The company has an unexecuted order book position of Rs. 54.15 as on 18 September 2019, which is executable by 2019-2020.

Acuité believes that the ability of the company to get new orders in order to mitigate the risk will be a key rating sensitivity.

• Competitive and fragmented industry

The company is engaged as an EPC contractor. The particular sector is marked by the presence of several mid to big size players. The firm faces competition from the other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent on account of extensive experience of the management.

Rating Sensitivity Factor

- Sustainability of growth in revenue with respect to the current order book position

Material Covenants

None

Liquidity position: Adequate

The company has adequate liquidity marked by moderate net cash accruals to its debt maturity obligations. The company generated cash accruals of Rs. 5.83 crore during FY2019 (Provisional) against no significant debt maturity obligation for the same period. The cash accruals of the company are estimated to increase from Rs. 6.80 crore in FY2020 to Rs. 9.30 crore in FY2022, while the debt maturity obligation for the same period would be around Rs.0.10 crore. The company maintains cash and bank balances of Rs. 0.07 crore as on March 31, 2019. The current ratio of the company stood at 1.58 times as on March 31, 2019. SPSPL's working capital limits over the last eleven months period was utilized at an average of 61 per cent, while the peak utilization was high at around 90 per cent during the same period. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate net cash accrual to its maturing debt obligation.

Outlook: Stable

Acuité believes that the company will maintain a 'Stable' outlook over the medium term on account of its experienced management, reputed customers in the EPC industry and healthy financial performance. The outlook may be revised to 'Positive' in case of significant improvement in revenues and accruals with improvement in its working capital management. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile owing to higher than expected working capital requirements or lower order book position.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	72.55	65.31	21.03
EBITDA	Rs. Cr.	7.84	6.70	1.81
PAT	Rs. Cr.	5.69	4.41	1.60
EBITDA Margin	(%)	10.80	10.26	8.63
PAT Margin	(%)	7.85	6.76	7.60
ROCE	(%)	38.09	49.09	38.36
Total Debt/Tangible Net Worth	Times	0.47	1.06	0.38
PBDIT/Interest	Times	8.73	9.83	4.84
Total Debt/PBDIT	Times	0.91	1.51	0.82
Gross Current Assets (Days)	Days	201	172	91

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>
- Infrastructure entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
16-July-2018	Proposed Cash Credit	Long term	7.50	ACUITE BBB-/Stable (Assigned)
	Proposed Bank Guarantee	Short term	21.50	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB-/Stable (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	21.50	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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