

Press Release

Stambh Power System Private Limited

February 02, 2021



Rating reaffirmed

Total Bank Facilities Rated*	Rs. 39.00 Cr. (Enhanced from Rs.29.00 Crore)
Long Term Rating	ACUITE BBB-/Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.39.00 Crore bank facilities of Stambh Power System Private Limited. The outlook is '**Stable**'.

About the Company

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.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SPSPL to arrive at the 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 continue to benefit from their established presence in the industry over the medium term.

- **Healthy Financial risk profile**

Company's financial risk profile of the company remained healthy marked by moderate net worth, low gearing and strong debt protection metrics. The net worth of the company stood at Rs.20.22 Crore as on 31 March 2020 as against Rs.15.46 Crore as on 31 March 2019. The net worth levels have seen significant improvement over the last three years on account of healthy accretion to reserves during the same period. The gearing level (debt-equity) stood at 0.58 times as on 31 March 2020 as against 0.60 times as on 31 March 2019. The total debt of Rs.11.75 Crore as on 31 March 2020 consists of unsecured loan from director and promoters of Rs.4.89 Crore and working capital borrowings of Rs.6.86 Crore. The interest coverage ratio (ICR) stood at 7.40 times as against 8.78 times in FY2019 due to low EBITDA during the year. NCA/TD (Net Cash Accruals to Total Debt) ratio stood comfortable at 0.42 times in FY2020 as against 0.61 times in FY2019. Debt

to EBITDA stood at 1.48 times in FY2020 as against 1.05 times in FY2019.

Acuité expects the financial risk profile of the company to remain healthy over the medium term on account of healthy accretion to reserves and strong debt protection metrics leading to lower reliance on external borrowings.

Weaknesses

- **Intensive working capital management operation**

The working capital management of the company stood intensive in FY2020 marked by moderate Gross Current Assets (GCA) of 231 days in FY2020 as against 192 days in FY2019. The inventory and debtor levels stood at 13 days and 207 days in FY2020 as against 22 and 162 days in FY2019, respectively. The main reason for high debtors is that outstanding debtors amounted to Rs.31.61 Crore as of 31st march, 2020 also includes amount retained by authority, i.e. ~Rs.13.00-14.00 Crore. This retained amount will only be repaid after project completion. The creditor days stood at 110 days in FY2020 as against 143 days in FY2019. The average utilization of bank limits stood at ~72 per cent in the last six months ending December 2020.

Acuité believes that the working capital requirements will continue to remain intensive over the medium term on account of high debtor days.

- **Decline in operating income**

The company witness a decline in operating income in FY2020. The operating income decline by 23% and stood at Rs.55.67 Crore in FY2020 as against Rs.72.55 Crore in FY2019. It was mainly due to slower execution of order in the month of February and March due to Covid-19 pandemic followed by nationwide lockdown. However in the current financial year, as of 31st march, 2020 the company have achieved a revenue of Rs.36.00 Crore. The company has an unexecuted order book position of Rs. 163.87 as on 31st December 2020, which is executable by 2021-2022.

Acuité believes that the healthy order book gives strong revenue visibility in the near to medium term.

Rating sensitivity

- Decline in the scale of operations while maintaining profitability leading to an overall stable financial risk profile

Material Covenant

None

Liquidity position: Adequate

The Company has adequate liquidity marked by high net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.4.91 Crore in FY2020 as against no CPLTD for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.4.96 Crore to Rs.6.14 Crore during FY2021-23 against no CPLTD for the same period. The company's working capital operations are intensive marked by gross current asset (GCA) days of 231 days in FY2020. The average utilization of bank limits stood at ~72 per cent in the last six months ending December 2020. Company maintains unencumbered cash and bank balances of Rs.0.09 Crore as on 31 March 2020. The current ratio stands at 1.98 times as on 31 March 2020.

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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	55.67	72.55
PAT	Rs. Cr.	4.78	5.50
PAT Margin	(%)	8.59	7.58
Total Debt/Tangible Net Worth	Times	0.58	0.60
PBDIT/Interest	Times	7.40	8.78

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities- <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
28-December-2020	Proposed Cash Credit	Long Term	7.50	ACUITE BBB- (Indicative)
	Proposed Bank Guarantee	Short Term	21.50	ACUITE A3 (Indicative)
04-October-2019	Proposed Cash Credit	Long Term	7.50	ACUITE BBB-/Stable (Reaffirmed)
	Proposed Bank Guarantee	Short Term	21.50	ACUITE A3 (Reaffirmed)
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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	31.50	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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