

Press Release

Stambh Power System Private Limited

May 04, 2022



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	31.50	-	ACUITE A4+ Downgraded
Bank Loan Ratings	7.50	ACUITE BB+ Stable Downgraded	-
Total Outstanding Quantum (Rs. Cr)	39.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long-term rating to “**ACUITE BB+’ (read as ACUITE Double B Plus)** and the short term rating to “**ACUITE A4+’ (read as ACUITE A Four Plus)** on the Rs.39.00 Crore bank facilities of Stambh Power System Private Limited. The outlook is ‘**Stable**’.

Rationale for Downgrade

The downgrade of rating takes into account the decline in profitability, stretched working capital cycle and deterioration in financial risk profile. Due to increase in raw material prices the company’s profitability margins have moderated year on year. EBITDA margin has moderated from 12.96% in FY 2020 to 10.19% in FY 2021 and have further moderated to 3.59% in FY 2022 although the company has achieved operating revenue of Rs. 57.53 Cr which is higher than previous years income as per the YTD Figures estimates provided. Working capital operation of the company is intensive and has stretched in FY 2021 marked by GCA Days of 299 and net working capital cycle of 181 days. Going forward it is expected to remain intensive. Decline in margins and covid related disruptions resulting in stretched working capital cycle triggered increased reliance on working capital borrowings and onboarding of long term debt which led to deterioration of financial risk profile.

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

Acuite 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 SPSPPL will continue to benefit from their established presence in the industry over the medium term.

Above average Financial risk profile

The company's financial risk profile is above average marked by moderate net worth, low gearing and comfortable debt protection metrics. The net worth of the company stood at Rs. 23.87 Cr as against Rs. 20.22 Cr as on 31st March 2020. Gearing (Debt to Equity) moderated to 0.75 times in FY 2021 as against 0.58 times in FY 2020 on account of increase in total debt. The total debt of Rs. 17.85 Cr in FY 2021 consists of Rs. 4.79 Cr of long term debt, Rs. 5.78 Cr of Unsecured loans and Rs. 7.28 Cr of working capital borrowings. The Interest Coverage Ratio (ICR) moderated to 4.28 times in FY 2021 from 7.40 times in FY 2020 and DSCR has moderated to 3.50 times in FY 2021 from 5.58 times in FY 2020. NCA/TD moderated to 0.22 times in FY 2021 on account of increase in total debt.

Weaknesses

Working Capital Management

Company's working capital operations are intensive as evident by GCA days of 299 in FY 2021. The GCA days have stretched in FY 2021 due to stretch in debtor and inventory days. The Inventory days for FY 2021 stood at 23 as against 13 days in FY 2020. Due to the nature of operations, inventory period of 20-26 days is normal level for the company. Debtor days have stretched in FY 2021 and stood at 269 as against 207 days in FY 2020. The high level of debtors is a result of the payment arrangement the company has with its customers. The company executes electrification projects for various government departments. The company gets paid on 60-30-10 basis wherein 60% of the payment is made within a month of starting the project, 30% of the payment is done when the erections of poles and electricity lines are completed and the rest 10% of the payment is made after the project is handed over to the departments after due inspection. This 10% of held back payment usually takes long on a project to project basis and this in turn increases the debtor collection period for the company. The alternative to this is using BG facility but the company prefers their payment to be made late than using BG facility for the same. Hence going forward the team expects the working capital operations to remain intensive. The average bank limit utilization remained at 95.33% for FY 2022 i.e. April 2021 to March 2022.

Susceptibility to fluctuations in raw material prices

The company is exposed to risks arising from fluctuations in raw material prices. Since the company procures various equipment's, cables, poles etc from numerous suppliers, the prices of which are susceptible to fluctuation, this impacts the profitability of the company since company is not able to pass on the fluctuations to end customers and this has resulted in moderation in margins for the current year.

Rating Sensitivities

- Elongation of Woring Capital Cycle.
- Moderation in profitability margins.

Material covenants

None.

Liquidity Position: Adequate

The company's liquidity position is adequate when comparing its Net Cash Accruals to its maturing debt obligations. Going forward the company is expected to generate net cash accruals of Rs. 1.52 Cr and 1.91 Cr against CPLTD of Rs. 0.70 Cr each year for FY 2022-23 respectively. This gives enough cushion to the company to service its debt obligations. The company current ratio stood at 2.01 times and the company maintained cash and bank balance of Rs. 0.02 Cr for FY 2021.

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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	52.65	55.67
PAT	Rs. Cr.	3.65	4.78
PAT Margin	(%)	6.93	8.59
Total Debt/Tangible Net Worth	Times	0.75	0.58
PBDIT/Interest	Times	4.28	7.40

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

Not Applicable.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Feb 2021	Cash Credit	Long Term	7.50	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	31.50	ACUITE A3 (Reaffirmed)
28 Dec 2020	Proposed Bank Guarantee	Short Term	21.50	ACUITE A3 (Issuer not co-operating*)
	Proposed Cash Credit	Long Term	7.50	ACUITE BBB- (Issuer not co-operating*)
04 Oct 2019	Proposed Bank Guarantee	Short Term	21.50	ACUITE A3 (Reaffirmed)
	Proposed Cash Credit	Long Term	7.50	ACUITE BBB- Stable (Reaffirmed)
16 Jul 2018	Proposed Bank Guarantee	Short Term	21.50	ACUITE A3 (Assigned)
	Proposed Cash Credit	Long Term	7.50	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Yes Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	31.50	ACUITE A4+ Downgraded
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BB+ Stable Downgraded

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About Acuité Ratings & Research

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