

## Press Release

### Stambh Power System Private Limited

March 03, 2023



## Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	7.50	ACUITE BB+   Stable   Reaffirmed	-
Bank Loan Ratings	31.50	-	ACUITE A4+   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	39.00	-	-

## Rating Rationale

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

### Rationale for reaffirmation

Rating has been reaffirmed on account of stability in scale of operations amid moderate growth in FY 2022 and expected improvement going forward. Company has witnessed decline in profitability in FY 2022 due to absence of price variation clauses in critical projects. Working capital cycle and GCA days have stretched in FY 2022 on account of increase in debtors due to high share of retention amount in receivables. This has led to increase in reliance in working capital limits leading to stretch in liquidity. Going forward, company's working capital management and profitability metrics will remain key rating sensitivities.

### 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 SPSPL 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. 26.09 Cr in FY 2022 as against Rs. 23.87 Cr in FY 2021. Total debt of Rs. 15.07 Cr consists of Rs. 2.73 Cr of long term debt, Rs. 5.03 Cr of unsecured loans and Rs. 7.32 Cr of working capital borrowings. Consequently, gearing (Debt to Equity) improved from 0.75 times in FY 2021 to 0.58 times in FY 2022. Interest coverage ratio improved from 4.28 times in FY 2021 to 4.54 times in FY 2022. TOL/TNW declined to 1.52 times in FY 2022 as against 1.82 times in FY 2021. Debt-EBITDA ratio increased to 6.09 times in FY 2022 as against 3.33 times in FY 2021 due to decline in operating profit.

### **Weaknesses**

#### **Working Capital Management**

Company's working capital operations are intensive as evident by GCA days of 341 in FY 2022 as against 299 in FY 2021. Elongated GCA days is a result of high outstanding debtors. Debtor realization period has increased from 269 days in FY 2021 to 293 days in FY 2022. 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 which can range from 6 months to 2 years and this in turn increases the debtor collection period for the company. Hence going forward the team expects the working capital operations to remain intensive. Inventory period has increased from 23 days in FY 2021 to 32 days in FY 2022. Creditor days have increased from 111 days in FY 2021 to 128 days in FY 2022. Average bank limit utilization has remained moderately high at 78.41% for the 9 months' period between April 2022 to December 2022.

### **Rating Sensitivities**

- Working Capital Management.
- Moderation in profitability margins.

### **Material covenants**

None.

### **Liquidity Position Stretched**

Company's liquidity position is stretched. Company generated net cash accrual of Rs. 2.60 Cr in FY 2022. Working capital limits are being utilized at moderately high level leaving low buffer for incremental working capital and the investments of Rs. 10.57 Cr are lien marked. Company has unencumbered cash and bank position of Rs. 0.92 Cr in FY 2022. Going forward liquidity position is expected to improve due to increase in profitability.

### **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.

### Other Factors affecting Rating

None.

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	57.74	52.65
PAT	Rs. Cr.	2.26	3.65
PAT Margin	(%)	3.91	6.93
Total Debt/Tangible Net Worth	Times	0.58	0.75
PBDIT/Interest	Times	4.54	4.28

### 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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 May 2022	Bank Guarantee	Short Term	31.50	ACUITE A4+ (Downgraded from ACUITE A3)
	Cash Credit	Long Term	7.50	ACUITE BB+   Stable (Downgraded from ACUITE BBB-   Stable)
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*)

## Annexure - Details of instruments rated

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

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Shreyansh Singh Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:shreyansh.singh@acuite.in">shreyansh.singh@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### About Acuité Ratings & Research

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