

Press Release

Core Energy Systems Private Limited

May 04, 2021

Rating Upgraded and Reaffirmed



Total Bank Facilities Rated*	Rs. 34.00 Cr.
Long Term Rating	ACUITE BB+/ Outlook: Stable (Upgraded)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BB**' (read as **ACUITE double B**) and reaffirmed the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 34.00 Cr bank facilities of Core Energy Systems Private Limited. The outlook is '**Stable**'.

The upward revision in the rating is in view of continued improvement in its business risk profile coupled with the healthy order book position. It has an unexecuted order book size of Rs.73 Cr which is executable over a period of 2 to 3 years which ensures adequate revenue visibility in the medium term. Further, the group's business risk profile has improved over the years with respect to repeated orders from reputed set of customers. CSPL has recently signed an investment offer from Maharashtra Defense and Aerospace Venture Fund [MDAVF] of Rs.30 Cr. This is further expected add comfort to the overall business and financial risk profile of the group in the medium term.

Core Energy Systems Private Limited (CSPL) was incorporated in the year 1997 as a partnership firm by Mr. Nagesh N. Basarkar, a petrochemical engineer by qualification, and later in 2004 the constitution was changed to private limited. CSPL is engaged in providing a range of high technology products, value added services as well as turnkey engineering solutions catering to sectors like, nuclear, oil & gas, and defense markets. The company is located in Dombivli, Thane and has an overseas office registered as Western CORE Ltd in UK.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Core Energy Systems Private Ltd and its wholly owned subsidiary in UK i.e. Western CORE Ltd together referred to as the 'Core Group'. The consolidation is in view of the similar line of business and common ownership. Extent of Consolidation: Full

Key Rating Drivers

Strengths

- Improving business risk profile, influenced by the experience and expertise of management**
 The promoters, Mr. Nagesh Narayan Basarkar, Mrs. Sunayana Nagesh Basarkar and Mrs. Draupadi Narayana Basarkar, have extensive experience of more than two decades in the capital good industry. Mr. Nagesh is a petrochemical engineer and the knowledge base of the promoters has enabled the group to establish relationship with reputed market players such as, Reliance Infrastructure Limited (RIL), Oil and Natural Gas Corporation Limited (ONGC), Tata Projects Limited, Nuclear Power Corporation of India Limited. Further, the experience of the promoters in the said line of business has help them maintain a long-term association of greater than a decade, with its customers and suppliers. CSPL, currently, has an unexecuted order book size of Rs.73 Cr which is executable over a period of 2 to 3 years giving adequate revenue visibility.
 Acuité believes that the group will benefit from its experienced management and in maintaining long-standing relations with reputed customers and suppliers.
- Moderate financial risk profile**
 Core Group has a moderate capital structure w.r.t. the modest tangible network at Rs.15.10 Cr as on March 31, 2020 against Rs.13.65 Cr as on March 31, 2019 vis-à-vis the total debt profile of Rs.14.70 Cr as on

March 31, 2020. This has led to moderate leverage metrics of D/E of 0.97 times and TOL/TNW of 1.38 times as on March 31, 2020. This is further expected to improve in the medium term on account of venture capital investment from Maharashtra Defense and Aerospace Venture Fund [MDAVF] of Rs.30 Cr and execution of subscription cum shareholders agreement. Due to improved profitability levels during FY2020, Core Group has reported moderate debt protection metrics of ICR and DSCR at 2.00 times and 1.67 times respectively in FY2020 against 1.85 times and 1.59 times in FY2019. NCA/TD has remained at 0.12 times in FY2020. Acuite expects the financial risk profile to remain average over the medium term in the absence of any significantly debt-funded capital expenditure supported by moderate margins to support its accretion to net worth and improve its debt protection metrics.

Weaknesses

- Moderately working capital intensive operations**

The operations of Core Group are working capital intensive marked by Gross Current Assets (GCA) of 263 days for FY2020 as against 189 days for FY2019. This is majorly on account of high debtor days of 199 for FY2020 as compared to 135 for FY2019. The high debtors are on the account of elongated project period. This has led to a fairly high average utilization of its working capital bank facilities at 89.03 percent through twelve years ending March, 2021. Acuite believes that being engaged in capital goods industry, the group's operations will continue to remain working capital intensive. Going ahead, the ability of the group to efficiently manage its working capital requirements will remain the key rating sensitivity.

Rating Sensitivities

- Growth in the operations with sustainability in the profitability margins
- Any further elongation in the working capital management leading to any negative impact on the liquidity profile

Liquidity: Stretched

Core Group's liquidity position is stretched owing to the high utilization levels of its fund-based facilities on account of highly working capital-intensive operations. Due to the working capital-intensive nature of its operations, the average utilization of its working capital bank facilities stood at 89.03 percent through twelve months ending March 2021. Further, the group reported net cash accruals of Rs.1.72 Cr in FY2020 vis-à-vis nominal repayments. The cash accruals are expected to be in the range of Rs.1.5 Cr to Rs.3.7 Cr in the medium term against repayments of Rs.1.4 Cr in the same period. The cash and bank balance, free of encumbrances, stood at Rs.1.10 Cr as on March 31, 2020 and a healthy current ratio of 1.40 times for the same period.

Outlook: Stable

Acuite believes that the outlook of Core Group will remain 'Stable' over the medium term on account of the experience of the management in the industry and the healthy order book position. The outlook may be revised to 'Positive' in case the group registers higher-than-expected growth in its revenues and profitability while improving the working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management leading to deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	34.30	48.32
PAT	Rs. Cr.	1.39	0.93
PAT Margin	(%)	4.05	1.92
Total Debt/Tangible Net Worth	Times	0.97	1.07
PBDIT/Interest	Times	2.00	1.85

Status of non-cooperation with previous CRA

CRISIL, vide its press release dated March, 2021 had denoted the rating of Core Energy Systems Private Limited as 'CRISIL B+/Stable/A4; Issuer non-cooperating' on account of lack of adequate information required to monitor 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>
- Service Entities - <https://www.acuite.in/view-rating-criteria-50.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.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
06-Feb-2020	Cash Credit	Long Term	5.00	ACUITE BB/Stable (Upgraded)
	Cash Credit	Long Term	6.50	ACUITE BB/Stable (Upgraded)
	Cash Credit	Long Term	3.00	ACUITE BB/Stable (Upgraded)
	Bank Guarantee	Short Term	4.50	ACUITE A4+ (Upgraded)
	Bank Guarantee	Short Term	6.00	ACUITE A4+ (Upgraded)
	Bank Guarantee	Short Term	5.00	ACUITE A4+ (Upgraded)
	Letter of Credit	Short Term	4.00	ACUITE A4+ (Assigned)
10-Dec-2018	Cash Credit	Long Term	4.50	ACUITE BB-/ Stable (Assigned)
	Cash Credit	Long Term	6.50	ACUITE BB-/ Stable (Assigned)
	Cash Credit	Long Term	3.00	ACUITE BB-/ Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	6.00	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A4 (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	5.00	ACUITE BB+/Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE BB+/Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB+/Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A4+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4+ (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Vice President – Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Sagarikaa Mukherjee Senior Analyst - Rating Operations Tel: 022-49294033 sagarikaa.mukherjee@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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