Press Release

Kalpin Electronix Private Limited

January 02, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 6.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' **(read as ACUITE double B)** to the Rs. 6.00 crore bank facilities of Kalpin Electronix Private Limited (KEPL). The outlook is '**Stable**'.

Incorporated in 2016, KEPL is a Hyderabad based company engaged in design and development of set top boxes. KEPL is promoted by Directors, Mr. Tummala Sachendra and Mr. Sanjiv Kumar Tandon. KEPL started business operations from May 2018 onwards. KEPL imports the set top box components from overseas, and get the same assembled through contract manufacturers and supplies to CEPL. KEPL commenced commercial operations from May 2018 and generated revenue of Rs.12.00 crore from May 2018 to August 2018.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Corpus Enterprises Private Limited and Kalpin Electronix Private Limited (herewith referred as the group) to arrive at the rating. The consolidation was on account of common management and significant amount of operational linkages. Extent of Consolidation : Full.

Key Rating Drivers

Strengths

- **Experienced management and established track record ofoperations**

CEPL was incorporated in 1999 and is a Bangalore-based company promoted by Mr. Sachendra Tummala. The founder & CEO, Mr. Sachendra Tummala, has over 30 years of experience in IT industry. Mr. Sanjiv Kumar, Chief Financial Officer, has more than 15 years of experience in the field of Finance & Accounts in different organisations mainly in IT and related sectors. The company has operations in India, USA and South Africa. CEPL has reported healthy revenue growth at compound annual growth rate (CAGR) of around 18.75 percent for the period from FY 2015 to FY 2018.

CEPL has reported operating income of Rs. 60.18 crore in FY 2018 (Provisional) as against Rs. 47.80 crore in FY 2017. This is mainly on account of diversification of its customer base and increase in demand for solutions from Domestic Digital Entertainment Industry. The company has good contractual relationships with Andhra Pradesh State Fibernet Limited (APSFL) and Telecommunications Consultants India (TCIL). The group has secured an order for supply of set top boxes of about 20 percent of total requirement of APSFL. The indicative order value is about Rs.40.00 crore. The company also entered into MOU with TCIL for supply and installation of customer-provided equipment (CPE) and Internet Protocol Television (IPTV) along with related hardware and software. Apart from supplies to APSFL and TCIL, KEPL is developing other HD and SD set top boxes which will be sold to the cable operators in Andhra Pradesh. Acuité believes that confirmed order and MOU is expected to support the revenue visibility for the group over the mediumterm.

- **Comfortable financial risk profile**

The financial risk profile of the group is marked by moderate net worth, healthy gearing (debt-to-equity) and comfortable debt protection metrics. The net worth is moderate at Rs.27.40 crore as on 31 March, 2018 (Provisional) against Rs.22.09 crore in 31 March, 2017. Gearing is healthy at 0.49 times as on March 31, 2018 (Provisional) vis-à-vis 0.51 times as on March 31, 2017. CEPL's cash accruals are comfortable at about Rs.3.36 crore in FY2018, and the same are likely to be in the range of Rs.6 - 8 crore over the medium term; against which its repayment obligations are marginal at about Rs.0.23 crore. As the supplies are to Government owned entities, the operations are working capital intensive resulted in high utilisation of bank lines at about 97 percent over 6 months through August, 2018. The debt protection metrics are comfortable with interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) of 4.30 times and 3.97 times respectively for FY2018 (Provisional). As there is no significant capex envisaged over the medium term and with improving revenues and diversified product portfolio of the group, Acuité believes that the financial risk profile is expected to improve over the medium term.

Weaknesses

- **Intense working capital requirements**

The operations are working capital intensive as evident from Gross Current Asset (GCA) days of 251 as on March 31, 2018 (Provisional). The working capital is majorly in the form of debtors, since the company majorly serves government players such as APSFL and TCIL, wherein the realisation period tends to be high; this results in high utilisation of bank lines. Acuité believes that with the expected growth in revenues at about 15-20 percent over the medium term, the operations continues to be working capital intensive.

Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook over the medium term on account of the management's experience and established relations with customers. The outlook may be revised to 'Positive' in case of sustained increase in its revenues while diversifying its revenue concentration and maintaining its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations impacting the liquidity.

About the Group

Incorporated in 1999, Corpus Enterprises Private Limited (CEPL) was promoted by Mr. Tummala Sachendra and Mr. Sanjiv Kumar Tandon. While incorporation in 1999, the company was registered as Corpus Software Private Limited and later in January, 2018, changed the name to CEPL. CEPL is engaged in the activity of providing Media & Entertainment solutions such as cross platform applications across Television, PC and mobile. CEPL reported revenues of Rs.60.18 crore and profit- after-tax (PAT) of Rs.0.75 crore in the financial year 2018 against Rs.47.80 crore and PAT of Rs.0.31 crore in FY2017.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	60.18	47.80	41.70
EBITDA	Rs. Cr.	4.76	5.23	4.75
PAT	Rs. Cr.	0.75	0.31	0.55
EBITDA Margin	(%)	7.92	10.95	11.40
PAT Margin	(%)	1.24	0.65	1.31
ROCE	(%)	5.84	6.11	6.75
Total Debt/Tangible Net Worth	Times	0.49	0.51	0.55
PBDIT/Interest	Times	4.30	3.97	4.43
Total Debt/PBDIT	Times	2.79	2.10	2.13
Gross Current Assets (Days)	Days	251	228	251

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-22.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)
Not Applicable

***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	4.40	ACUITE BB / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.60	ACUITE BB / Stable

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About Acuité Ratings & Research:
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