Press Release

Ethos Power Private Limited

D-U-N-S® Number: 87-304-7063

March 22, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 33.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB+**' **(read as ACUITE double B plus)** and short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs. 33.00 crore bank facilities of Ethos Power Private Limited (EPPL). The outlook is **'Stable'**.

EPPL is a Gurgaon based company incorporated in 2012. The company is engaged in civil construction as an EPC contractor. EPPL is a Class-A contractor. The company is also engaged in the production of solar roof top panels and solar water pumps, which are used for captive consumption in civil construction projects.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Ethos Power Private Limited to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**
  EPPL is promoted by Mr. Sandeep Mann and Mr. Kushavjeet Mann. Mr. Sandeep Mann has an experience over a decade in the power industry with respect to electrical and contractual work. Mr. Kushavjeet Mann has previously worked at World Bank in Washington D.C. Acuité believes that the scale of operations of EPPL is well supported by the experience of the promoters along with a well managed team.

- **Healthy growth in revenue with stable margins**
  The company has reported healthy revenue growth with Compound Annual Growth Rate (CAGR) of around 30 percent through the last three years ended 31 March, 2018. The company reported significant revenue growth of ~11.18 percent with operating income of Rs.55.99 crore in FY2018 as against operating income of Rs.50.36 crore in FY2017. The operating margins of the company improved to 10.24 percent in FY2018 as against 8.90 percent in FY2017. The PAT margins of EPPL improved to 5.28 percent for FY2018 as against 3.49 percent for FY2017. Net Cash Accrual (NCA) margins improved to 6.03 percent for FY2018 as against 4.07 percent for FY2017. EEPL has recorded an average Return on Capital Employed (RoCE) of 33.55 percent for the three years ending March 2018.

- **Moderate financial risk profile**
  The financial risk profile is moderate marked by moderate net worth and debt protection measures and low gearing. The net worth of the company is moderate at around Rs.12.18 crore as on 31 March, 2018 as against Rs.5.29 crore as on 31 March, 2017. The improvement in net worth is on account of infusion in the form of unsecured loans from promoters and directors, to be treated as quasi equity, of Rs.3.93 crore. The gearing improved to 0.47 times for FY2018 as against 2.06 times for FY2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.72 times as on 31 March, 2018 as against 4.15 times as on 31 March, 2017. The healthy revenue levels coupled with stable operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) remained moderate at 4.10 times in FY2018 and 2.60 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD)

stood at 0.59 times as on 31 March, 2018 as against 0.19 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 3.29 times for FY2018 as against 2.12 times in FY2017. Acuité believes that the financial risk profile of EPPL will continue to remain moderate over the medium term on account of its improving scale of operations and profitability indicators.

Weaknesses

- **Competitive and fragmented industry with tender based nature of business**
  EPPL is into power projects, wherein the sector is marked by the presence of several mid to large sized players. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts, and susceptibility to inherent cyclicality in the infrastructure segment. Further, it is dependent on State Government's thrust on power infrastructure works. Acuité believes that EPPL's revenues and margins are susceptible to the competitive bidding scenario.

Liquidity Position

EPPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.0.50 to 3.40 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.40 – 0.80 crore over the same period. The cash accruals of the company are estimated to remain around Rs.5.20 – 7.40 crore during 2019-21 while its repayment obligations are estimated to be around Rs. 0.40 – 0.70 crore. EPPL's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 160 in FY 2018. This has led to increased reliance on working capital borrowings, the cash credit limit in the company remains utilized at 90 percent during the last 12 months period ended December 2018. The company maintains unencumbered cash and bank balances of Rs.0.12 crore as on March 31, 2018. The current ratio of EPPL stands healthy at 1.47 times as on March 31, 2018. The company is likely to incur capex of Rs.2.00 – 3.00 crore over the medium term which is likely to be funded by internal accruals. Acuite believes that the liquidity of EPPL is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuité believes that EPPL will maintain a 'Stable' outlook over the medium term backed by its experienced management and healthy revenue visibility. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its revenues while maintaining its profitability margins and improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or any significant decline in profitability resulting in the weakening of the financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	55.99	50.36	23.55
EBITDA	Rs. Cr.	5.73	4.48	1.75
PAT	Rs. Cr.	2.96	1.76	0.43
EBITDA Margin	(%)	10.24	8.90	7.45
PAT Margin	(%)	5.28	3.49	1.81
ROCE	(%)	33.10	33.48	34.09
Total Debt/Tangible Net Worth	Times	0.47	2.06	4.20
PBDIT/Interest	Times	4.10	2.60	1.63
Total Debt/PBDIT	Times	0.95	2.29	4.42
Gross Current Assets (Days)	Days	160	147	75

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

Not Applicable

Any other information

None

Applicable Criteria

• Default Recognition - https://www.acuite.in/criteria-default.htm
• Infrastructure Entities - https://www.acuite.in/view-rating-criteria-14.htm
• Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.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	9.00	ACUITE BB+ / Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE A4+ (Assigned)

Contacts

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About Acuité Ratings & Research:
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