

Press Release

Ethos Power Private Limited

December 17, 2019



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and short term rating to '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.33.00 crore bank facilities of ETHOS POWER PRIVATE LIMITED. The outlook is revised to '**Negative**'.

Outlook Revised to Negative

The revision of outlook is on the account of deterioration in operating levels coupled with deterioration in working capital cycle. Operating income has declined to Rs.43.01 in FY2019 from Rs.55.99 crore in FY2018. Further there has been deterioration in working capital cycle marked by Gross Current Assets (GCA) of 173 days in FY2019 as against 160 days in FY2018, which is on the account of high debtors' collection period of 136 days in FY2019 as against 124 days in FY2018.

Gurgaon-based, Ethos Power Private Limited (EPPL) was incorporated in 2012 and is promoted by Mr. Kushavjeet Mann and Mr. Sandeep Mann. Company is a Class-A contractor, engaged in the business of civil construction as on EPC contractor for installation electric substation up to 220 KV. Further company is even engaged in the business of setting up of solar roof top panels and solar water pumps.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the EPPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

The promoter of EPPL, Mr. Sandeep Mann has an experience of over a decade in the power industry with respect to electrical and contractual work. The experience of the promoter has enabled the company to maintain strong relations with its customers as well as with its supplier and also maintain moderate order book position. Company at present has unexecuted orders of Rs.50.46 crore and orders of Rs.265.00 crore under L-1 category.

Acuité believes that the promoters' experience and healthy relations with its customers and suppliers will continue to benefit EPPL over the medium term.

• Moderate financial risk profile

EPPL has moderate financial risk profile marked by average net worth, healthy debt protection metrics and low gearing. The net worth of the company has sequentially improved to Rs.15.38 crore as on 31 March, 2019 as against Rs.7.41 crore as on 31 March, 2018 on account of healthy accretion to reserves, the latter is a result of moderate operating margins.

The company has followed a conservative financial policy in the past, the same is also reflected through its gearing levels. The gearing level (debt-equity) stood stable at 0.29 times as on 31 March, 2019 as against 0.77 times as on 31 March, 2018. The gearing of the company is expected to remain low over the medium term on account of absence of any debt funded capex plans and modest incremental working capital requirements, which is likely to be completely funded by the cash accruals of the company. The total debt of Rs.4.50 crore as on 31 March, 2019 consists of long term debt of Rs.0.87 crore, unsecured loans of Rs.0.61 crore and working capital borrowings of Rs.3.03 crore.

Operating income in FY2019 improved and stood at Rs.8.96 as against Rs.5.73 in FY2018, leading to improvement in interest coverage indicators. Interest coverage ratio (ICR) stands healthy at 3.61 times in FY2019 as against 3.29 times in FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 1.17 times in FY2019 and 0.43 times in FY2018. Debt to EBITDA stood at 0.49 times in FY2019 as against 1.29 times in FY2018.

Acuité believes that the financial risk profile of the company is expected to remain moderate backed by average net cash accruals and in absence of any major debt funded capex in near to medium term.

Weaknesses

• Working capital intensive nature of Operations

Operations of EPPL are working capital intensive marked by Gross Current Assets (GCA) of 173 days in FY2019 as against 160 days in FY2018. This is majorly on the account of debtors' collection period of 136 days in FY2019 as against 124 days in FY2018 and inventory holding period of 11 days in FY2019 as against 6 days in FY2018. However, current ratio for the company stands healthy at 1.87 times in FY2019 as against 1.47 times in FY2018. Acuité believes that the operations of EPPL will continue to remain working capital intensive on account of high debtors' collection period.

• 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 cyclical 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.

Key rating Sensitivity Factors

- Significant improvement in revenues while improvement in working capital cycle.
- Timely completion of ongoing projects.

Material Covenants

Not Applicable

Liquidity Position: Adequate

Group has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. It EPPL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.5.29 crore in FY2019 while it's maturing debt obligations stood at Rs.0.40 crore. The cash accruals of the company are estimated to remain around Rs.4.66- 5.88 crore during 2020-21 while its repayment obligations are estimated to be around Rs. 0.87 crore for the same period. EPPL's operations are working capital intensive marked by gross current asset (GCA) days of 173 in FY 2019. The company maintains unencumbered cash and bank balances of Rs.0.01 crore as on March 31, 2019. The current ratio of EPPL stands healthy at 2.00 times as on March 31, 2019. 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: Negative

Acuité has revised EPPL's outlook to 'Negative' over the medium term on account of deterioration in operating level and working capital cycle. The rating may be downgraded in case there is further deterioration in operating levels and working capital cycle. Conversely, the outlook may be revised to 'Stable' if company is able to achieve significant growth in operating income coupled with improvement in its working capital cycle while maintaining operating margins.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 43.01 | 55.99 |
| PAT | Rs. Cr. | 4.84 | 2.96 |
| PAT Margin | (%) | 11.25 | 5.28 |
| Total Debt/Tangible Net Worth | Times | 0.24 | 0.47 |
| PBDIT/Interest | Times | 4.56 | 4.10 |

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Application of Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|-------------|---------------------------------|------------|-----------------|------------------------------|
| 22-Mar-2019 | Cash Credit | Long term | 9.00 | ACUITE BB+/Stable (Assigned) |
| | Letter of Credit | Short term | 1.00 | ACUITE A4+ (Assigned) |
| | Bank Guarantee | Short term | 23.00 | 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 | 9.00 | ACUITE BB+ / Negative (Reaffirmed) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 1.00 | ACUITE A4+ (Reaffirmed) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 23.00 | ACUITE A4+ (Reaffirmed) |

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About Acuité Ratings & Research:

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