

## Press Release

### Ethos Power Private Limited

March 02, 2021

### Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs.33.00 Cr.
<b>Long Term Rating</b>	ACUITE BB+ / Outlook: Stable (Reaffirmed)
<b>Short Term Rating</b>	ACUITE A4+ (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed its 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. The outlook is revised to '**Stable**'.

### About the company

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 of electric substation up to 220 KV. Further, the company is even engaged in the business of setting up of solar roof top panels and solar water pumps.

### Analytical Approach

For arriving at this rating, Acuite has taken a standalone view of the business and financial risk profile of Ethos Power Private Limited.

## 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.

Acuite 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.15.23 crore as on 31 March, 2020 as against Rs.13.09 crore as on 31 March, 2019.

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 0.14 times as on 31 March, 2020 as against 0.52 times as on 31 March, 2019. 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.2.20 crore as on 31 March, 2020 consists of long term debt of Rs.0.35 crore, and unsecured loans of Rs.1.85 crore. Interest coverage ratio (ICR) stands healthy at 3.51 times in FY2020 as against 4.56 times in FY2019. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 1.20 times in FY2020 and 0.78 times in FY2019. Debt to EBITDA stood at 0.46 times in FY2020 as against 0.74 times in FY2019.

Acuite 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

### • Downtrend in operating income

Operating income of the company reduced to Rs.35.77 crore in FY2020 from Rs.43.01 crore in FY2019. Operating income for the period April-December during FY2021 stood at Rs.26.48 crore. However, the company has unexecuted orders worth ~Rs.110 crore which provides healthy revenue visibility over the short to medium term.

### • Working capital intensive nature of operations

Operations of EPPL are working capital intensive marked by Gross Current Assets (GCA) of 222 days in FY2020 as against 173 days in FY2019. This is majorly on account of debtors' collection period of 136 days in FY2020 as against 136 days in FY2019 and inventory holding period of 16 days in FY2020 as against 11 days in FY2019. However, current ratio for the company stands healthy at 2.09 times in FY2020 as against 1.87 times in FY2019. Acuite believes that the operations of EPPL will continue to remain working capital intensive on account of high debtors' collection period.

### • Highly competitive industry and customer concentration risk

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 cyclicalities in the infrastructure segment. Further, it is dependent on State Government's thrust on power infrastructure works. Acuite believes that EPPL's revenues and margins are susceptible to the competitive bidding scenario.

## Liquidity Profile: Adequate

The company has adequate liquidity marked by average net cash accruals to its maturing debt obligations. TIPL generated cash accruals of Rs.2.64 crore in FY2020 against debt obligations of Rs.0.87 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.2.5-3.50 crore during FY2021-23. Average cash credit limit utilization by the company stood at ~55 percent during the last six months ended in January, 2021. The company maintained unencumbered cash and bank balances of Rs.0.41 crore as on 31 March, 2020. The current ratio stood at 2.09 times as on 31 March, 2020.

Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of average cash accruals against no major debt repayments over the medium term.

## Rating Sensitivities

- Lower than expected operating performance
- Significant improvement in profitability margins
- Deterioration in working capital management

## Outlook: Stable

Acuite has revised EPPL's outlook to 'Stable' over the medium term on account of healthy order book position and experienced management. The outlook may be revised to 'Positive' in case the group registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in financial risk profile or liquidity arising from elongation in the working capital cycle.

## About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	35.77	43.01
PAT	Rs. Cr.	2.14	4.84
PAT Margin	(%)	5.98	11.25
Total Debt/Tangible Net Worth	Times	0.14	0.52
PBDIT/Interest	Times	3.51	4.56

**Status of non-cooperation with previous CRA:**

Not Applicable

**Any other information**

Not Applicable

**Any Material Covenants**

Not Applicable

**Applicable Criteria**

- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- 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>

**Note on complexity levels of the rated instrument**

<https://www.acuite.in/view-rating-criteria-55.htm>

**Rating History (Up to last three years)**

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