

Press Release

Ethos Power Private Limited

May 20, 2022



Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	24.00	-	ACUITE A3 Upgraded
Bank Loan Ratings	9.00	ACUITE BBB- Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	33.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long term rating to “**ACUITE BBB-**” (read as **ACUITE Triple B minus**) from “**ACUITE BB+**” (read as **ACUITE double B plus**) and the short term rating to “**ACUITE A3**” (read as **ACUITE A Three**) from “**ACUITE A4+**” (read as **ACUITE A four plus**) on the Rs.33.00 Cr bank facilities of Ethos Power Private Limited (EPPL). The outlook is ‘Stable’.

Rationale for Upgrade

The rating is upgraded on account of increase in scale of operations, ability to sustain margins, comfortable financial risk profile and adequate liquidity. There is an improvement in company's scale of operations after the dip the company witnessed between FY 2019 and FY 2021 since as per the provisional numbers provided the company has achieved revenue of Rs. 64.29 Cr in FY 2022 and the order book position shared by the company indicates the sustainability in the revenues going forward. The company has price escalation clause on several components of raw materials used in project execution which gives the comfort that the company could mitigate the impact in rise of raw material prices except construction materials. This will enable company to maintain at least 8-10% EBITDA margins in the near term. The company's operations are working capital intensive and is expected to remain so in the near future, but despite that the company's financial risk profile has improved and is comfortable due to low reliance on working capital borrowings and this gives comfort that the company will be able to maintain the improvement in financial risk profile going forward. The company has adequate liquidity when comparing its NCA to its maturing debt obligations and the liquidity position is expected to remain adequate in the medium term giving comfort that the company will be able to service debt obligations with ease. The rating is constrained by working capital intensive nature of operations and customer and supplier concentration risk.

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

Comfortable financial risk profile

The company has a comfortable financial risk profile marked by modest Net worth, comfortable gearing and strong coverage indicators. The Net worth of the company stood at Rs. 17.61 Cr in FY 2021 as against Rs. 15.23 Cr in FY 2020. Debt to Equity ratio moderated from 0.14 times in FY 2020 to 0.51 times in FY 2021 but remained at comfortable levels due to manageable debt profile. The total debt of Rs. 8.92 Cr in FY 2021 consists of Rs. 0.80 Cr of long term debt, Rs. 1.14 Cr of Unsecured loans and Rs. 6.98 Cr of working capital borrowings. Coverage indicators remained strong and improved in FY 2021. Interest coverage ratio (ICR) improved from 3.51 times in FY 2020 to 4.02 times in FY 2021 while Debt Service Coverage Ratio (DSCR) improved from 1.79 times in FY 2020 to 3.04 times in FY 2021. Going forward the coverage indicators are expected to improve further. TOL/TNW moderated to 1.38 times in FY 2021 from 0.92 times in FY 2020 but remains at comfortable level while NCA/TD stood at 0.32 times in FY 2021 and is expected to improve in the near term. The company is expected to sustain the improvement in financial risk profile in the absence of any debt funded capex and moderate revenue visibility in the near term.

Weaknesses

Working capital intensive nature of operations

Company's working capital operations are intensive as evident by GCA days of 287 in FY 2021. The stretch in GCA cycle in FY 2021 was a result of stretch in Inventory and Debtor days. The inventory holding period stretched from 16 days in FY 2020 to 73 days in FY 2021 due to disruptions created by second wave of Covid from March 2021. As per the provisional numbers provided the inventory holding period has now been brought down to 15 days, slightly higher than pre pandemic levels. Debtor days too stretched from 136 days in FY 2020 to 165 days in FY 2021. The company does not raise bills on a monthly basis but on execution basis and also most of the billings happen in the last quarter of the fiscal as government departments have to clear the dues. The company, for solar power installation projects, gets 90% of the dues cleared after 30 days of executing the project and the rest 10% payment is released in the next 30 days after due handover and inspections. For GIS Substation projects, 80-90% of the payment is made after raising the bills after execution and the rest amount is released in the next 30-40 days after handover and due inspection. The general tenure of projects ranges from 18-24 months at maximum. Hence the debtor's realization period is generally high for the company. The company has brought down its creditor days in the current fiscal as per the provisional numbers provided. Hence going forward the team believes that the operations of the company will remain working capital intensive with slight improvement. Average bank limit utilization remained at 28.37% in between April 2021 to March 2022.

Highly competitive industry

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 cyclicity 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.

Customer and Supplier Concentration Risk

The top 10 customers contribute to entire revenue earned by the company while the company has managed to moderately diversify its geographical footprint by serving government departments in Delhi, Madhya Pradesh and Haryana. The company's supplier concentration has increased with the top 8 suppliers contributing to more than 91% to the purchase mix.

Rating Sensitivities

- Deterioration in working capital management.
- Customer and Supplier concentration in the overall business profile.

Material covenants

None.

Liquidity Position: Adequate

The company has adequate liquidity marked by its Net cash accruals vs its maturing debt obligations. Going forward the company is expected to generate NCA of Rs. 3.98 Cr in FY 2022 and Rs. 5.10 Cr in FY 2023 against CPLTD of Rs. 0.24 Cr and 0.26 Cr in the respective year. This gives enough liquidity cushion to the company to maintain its debt obligations and manage its working capital requirements. For this reason the company's average bank limit utilization remained at 28.37% for the current fiscal. The investment of Rs. 2.55 Cr in FY 2021 is entirely lien marked as margin money for non-fund based facilities and the company maintained Rs. 0.17 Cr of cash and bank position. The current ratio for FY 2021 stood at 1.70 times.

Outlook: Stable

Acuité has reaffirmed EPPL's outlook as 'Stable' over the medium term on account of moderate 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	44.92	35.77
PAT	Rs. Cr.	2.33	2.14
PAT Margin	(%)	5.20	5.98
Total Debt/Tangible Net Worth	Times	0.51	0.14
PBDIT/Interest	Times	4.02	3.51

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

Not Applicable.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.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**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Mar 2021	Letter of Credit	Short Term	1.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	9.00	ACUITE BB+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	23.00	ACUITE A4+ (Reaffirmed)
17 Dec 2019	Bank Guarantee	Short Term	23.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	1.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	9.00	ACUITE BB+ Negative (Reaffirmed)
22 Mar 2019	Bank Guarantee	Short Term	23.00	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	1.00	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	9.00	ACUITE BB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A3 Upgraded
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB- Stable Upgraded
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3 Upgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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