



Press Release
Ethos Power Private Limited
October 04, 2023
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	9.00	ACUITE BB+ Stable Downgraded	-
Bank Loan Ratings	24.00	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	33.00	-	-

Rating Rationale

Acuite has downgraded the long term rating from **ACUITE BBB-** (read as **ACUITE Triple B minus**) to **ACUITE BB+** (read as **ACUITE Double B Plus**) and the short term rating **ACUITE A3** (read as **ACUITE A Three**) to **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 Downgrade

The rating downgrade takes into account the deterioration in coverage indicators, Intensive working capital operation and low cash flows. Company also missed the projections for FY 23. The interest coverage ratio deteriorated by 275 bps and stood at 3.73 times for FY2023 (Prov.) as against 6.48 times in FY2022. Likewise, Debt Service coverage ratio deteriorated by 251 bps and stood at 2.68 times for FY2023 (Prov.) as against 5.19 times in FY2022.

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.

Financial Risk Profile -Moderated yet Comfortable

EPPL has comfortable financial risk profile marked by moderate net worth, strong debt protection metrics and low gearing. EPPL's net worth stood at Rs. 24.61 Cr (Prov.) as on 31st

March 2023 as against Rs.21.20 Cr as on 31st March 2022. Company follows conservative leverage policy. Gearing levels (debt-to-equity) witnessed minuscule improvement of 2 bps and stood below unity at 0.17 times as on March 31, 2023 (Prov.) as against 0.19 times in FY 2022. Improvement in Gearing Ratio in FY 23 is on account of profit accretions.

Total outside liabilities to total net worth (TOL/TNW) stood at 0.88 times as on FY2023 (Prov.) vis-à-vis 1.19 times as on FY2022. Debt-EBITA improved and stood at 0.60 times as on 31st March 2023(Prov.) as against 0.63 times as on 31st March 2022. The Net Cash Accruals to Total debt stood at 0.92 times as on FY2023 (Prov.) and 1.02 times for FY2022. The financial risk profile of the company is expected to improve and remain comfortable in medium terms, as the company do not have any large capex plan in the medium term

Weaknesses

Deterioration in Coverage Indicators

The interest coverage ratio moderated by 275 bps yet stood comfortable at 3.73 times for FY2023 (Prov.) as against 6.48 times in FY2022. Likewise, Debt Service coverage ratio moderated by 251 bps yet stood comfortable at 2.68 times for FY2023 (Prov.) as against 5.19 times in FY2022. Moderation in coverage indicator is due to increase in finance cost as same is increased from Rs 0.98 crore in FY 22 to Rs 1.86 crore in FY 23(Prov.)

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.

Business risk profile- Moderated

EPPL's revenue witnessed minuscule moderation of ~4% in FY2023 (Prov.) to Rs.~62.22 crore as against Rs. 64.65 crore in FY2022. Further company missed the projections for FY 23. Company has booked revenue of Rs~20 crore(inclusive of GST) in first three months of FY 24. Expected revenue for FY 24 is Rs ~ 85 to 90 crore. Company has unexecuted order book of Rs 125 crore in hand to be executed by end of FY 26.

Operating Profit margin of company improved by 126 bps and stood at 10.78 percent in FY 23(Prov.) as against 9.52% in FY2022 while the net profit margin of the company moderated by 9 bps and stood at 5.47 percent in FY2023 (Prov.) as against 5.56 percent in FY2022.

Working capital operations- Intensive

Company has improved yet intensive working capital requirements as evident from gross current assets (GCA) of 217 days in FY2023 (Prov.) as compared to 222 days in FY2022. Debtor days improved by 9 days and stood at 135 days in FY2023 (144 days in FY2022). Inventory days stood at 24 days in FY 2023(Prov.) as against 19 days in FY 22. Fund based working capital limits are utilized at ~71 per cent during the last six months ended June 23 while Non fund based limits utilization as on March 31, 2023 is ~79 percent.

Rating Sensitivities

Improvement in scale of operations along with profitability

Timely execution of contracts.

Improvement in working capital operations.

All Covenants

None

Liquidity Position

Adequate

Company has adequate liquidity marked by net cash accruals to its maturing debt obligations, current ratio, cash and bank balance. Company generated cash accruals of Rs. 3.87 crore for FY2023 (Prov.) as against obligations of Rs. 0.28 crore for the same period. Current Ratio stood at 2.22 times as on 31 March 2023(Prov.) as against 1.86 times in the previous year. Fund based working capital limits are utilized at ~71 per cent during the last six

months ended March 23 while Non fund based limits utilization as on March 31, 2023 is 79 percent leaving additional cushion to meet the contingencies in near future. Cash and Bank Balances of company stood at Rs 0.25 crore. The liquidity of the company is expected to improve with company expected to generate cash accruals in the range of Rs. 5 to 6 Cr against debt repayment of 0.50 to 1 crore obligation will also support the liquidity of the company.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	62.22	64.65
PAT	Rs. Cr.	3.41	3.59
PAT Margin	(%)	5.47	5.56
Total Debt/Tangible Net Worth	Times	0.17	0.19
PBDIT/Interest	Times	3.73	6.48

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

None

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 Aug 2023	Secured Overdraft	Long Term	9.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	18.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE A3 (Reaffirmed)
20 May 2022	Letter of Credit	Short Term	6.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Bank Guarantee	Short Term	18.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	9.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	18.00	ACUITE A4+ Downgraded
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE A4+ Downgraded
Punjab National Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	9.00	ACUITE BB+ Stable Downgraded

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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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