



Press Release

Cimechel Electric Private Limited (Erstwhile Cimechel Electric Company) January 09, 2023

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	33.10	ACUITE BBB- Negative Reaffirmed Stable to Negative	-
Bank Loan Ratings	61.90	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	95.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and shortterm rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.95.00 crore bank facilities of Cimechel Electric Private Limited. (erstwhile Cimechel Electric Company) (CEPL). The outlook is revised from 'Stable' to '**Negative.**'

Rationale for revision in outlook

The revision in the outlook is majorly on account of the stretched liquidity position of the company reflected by working capital intensive nature of operations. The intensive working capital cycle majorly on account of high GCA of 156 days during FY2022 which is majorly dominated by inventory days of 91 days. Furthermore, the company has to buy material only from the suppliers specified by the Indian Railways which restricts its ability to get longer credit from its suppliers. This increases company's dependency on external borrowings as reflected by highly utilised working capital limits of ~98 percent as on last 8 months ended November 2022. Further, CEPL's LC outstanding's to be paid by 14th January 23 stand which stands around Rs. 12.23 Cr. against receivables of Rs. 14.41 Cr during the same period. Hence, any delay in the realisation of the collections may put the company under severe liquidity crunch due to limited cushion between the repayments and accruals.

About the Company

Mumbai-based, CEPL was established as a partnership firm in 1992 and its constitution was changed to private limited company in 2021. The company, which started its commercial operations in 1998, is engaged in EPC contracting-overhead electrification for the railways primarily. It is promoted by Mr. Viren Shah and Mrs. Jyoti Shah, who have around four decades of experience in the aforementioned industry.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of CEPL to arrive at the rating.

Key Rating Drivers

Strengths

Long track record of operations and experienced management

CEPL is in the business since more than 20 years and is promoted by Mr. Viren Shah and Mrs. Jyoti Shah, who have around four decades of experience in the said line of business. Mr. Viren

Shah has been associated with his family business 'Cimechel Engineering', which is also engaged in overhead electrification. During FY15 and FY16, CEPL (erstwhile Cimechel Electric Company) had also done rural electrification under Deendayal Upadhyaya Gram Jyoti Yojana Scheme for the Madhya Pradesh government. The extensive experience, coupled with a long track record of operations, has enabled CEPL to forge healthy relationships with customers and suppliers. CEPL caters to reputed clientele like Central Railways, Western Railways, etc. and offers services in Maharashtra, Gujarat, Rajasthan, Punjab, Haryana, Orissa, Jharkhand, etc. to name a few. Although, CEPL's order book, which is expected to be executed in the near term, stands healthy at around Rs.280 crore as on November 2022. Acuité believes that CEPL is expected to benefit from its established presence in the aforementioned industry and the directors' demonstrated ability to scale up the operations across various cycles.

Moderate financial risk profile

CEPL has a moderate financial risk profile marked by modest net worth, moderate gearing, and debt protection metrics. The company's net worth as on March 31, 2022 stood at Rs.21.79 Cr. Debt to equity ratio of the company, as on March 31, 2022 stood at 1.02 times from 0.31 times a year back. During FY2021 the last working day's utilisation of the short-term limits stood zero as the company received payments resulting in no utilisations on that day. Hence the debt-equity as on 31st March 2021 stood low. The total debt level, as of March 2022 comprises of long term debt of Rs. 0.65 Cr, USL of Rs. 7.53 Cr. and short-term borrowing of Rs.13.99 Cr. Going ahead, debt to equity ratio is expected to deteriorate from current levels as company has availed GECL facilities to the tune of Rs. 5.40 Cr. and would remain at a moderate level of 1.20 times to 1.30 times in the medium term. Total outside liabilities to tangible net worth (TOL/TNW) was at 1.64 times as on March 31, 2022. Interest coverage ratio in FY2022 stood moderate at 2.72 times and debt service coverage ratio (DSCR) stood at 2.34 times for FY2022.

Acuité believes that the financial risk of the company will remain moderate over the medium term on account of additional debt availed by the company.

Weaknesses

Deterioration in the operating profitability and intensive working capital cycle

CEPL's revenues stood at Rs. 98.87 Cr in FY2022 against Rs. 95.39 Cr in FY2021. Further, the operating margins deteriorated to 7.78 percent in FY2022 from 11.63 percent in FY2021. The deterioration in the margins is marked by increase in the employee cost. Further, CEPL's working capital cycle is intensive in nature marked by higher GCA days of 156 and 160 in FY2022 and FY2021 respectively. The GCA is dominated by high inventory days of around 91 in FY2022 against 28 in FY2021. The realisations are relatively quicker as the company deals only with Indian railways. The debtor days for FY2022 stood at 10 against 61 in FY2021. Further, the company has to make 100 percent advance payments before dispatch to its suppliers which increases its dependency of bank borrowings. The average fund-based bank limit utilization during the six months through November 2022 stood utilised at over 98 per cent. Any further stretch in the working capital cycle will remain a key rating sensitivity.

Profitability susceptible to fluctuations in input cost and tender-based business

The input costs i.e. power cost, labour cost and raw materials - iron, steel and cement are highly volatile in nature. Hence, any adverse movement in input costs can impact the profitability. Further, CEPL's nature of business is tender based and the company faces intense competition in the industry. CEPL's success ratio of winning the bids is to the tune of 60-70 per cent. The company generates its entire revenue only from railway projects which increases the customer concentration risk. However, the government's focus on achieving full electrification of railway tracks and implementation of solar-powered electricity would provide good revenue support to the players like CEPL in the medium to long run.

Rating Sensitivities

- Improvement in the operating income along with improvement in the profitability margins
- Improvement in the liquidity profile
- Any further stretch in the working capital cycle
- Timely execution of the orders in hand

Material covenants

None

Liquidity Position

Stretched

The liquidity of the company is stretched marked by intensive working capital cycle and almost fully utilized working capital limits. The GCA days stood at 156 and 160 in FY2022 and FY2021 respectively majorly on account of high inventory days of around 91 in FY2022 against 28 in FY2021. Further, the company has to make 100 percent advance payments before dispatch to its suppliers which increases its dependency of bank borrowings. The average fund-based bank limits have remained utilized at around 98 percent during the eight months ended November 2022. Further, the NCA /TD for FY2022 stood low at 0.21 times against 0.53 times in FY2021. Additionally, the total LC payments to be done for January 2023 remain outstanding at around Rs. 12.23 Cr against receivables of Rs.14 Cr. for the same period. The cash and bank balance as on 31st March 2022 stood low at Rs. 0.20 Cr. Acuité believes that the liquidity position of the company will continue to remain stretched on account of intensive working capital cycle and high utilization of working capital limits.

Outlook: Negative

Acuité believes that the CEPL's will maintain a 'Negative' outlook over the medium due to stretched liquidity position of the company and deterioration in the operating profitability margins. The rating may be downgraded in case of further deterioration in the liquidity profile and elongated working capital cycle of the company. The outlook may be revised to 'Stable' in case of improvement in the company's working capital operations along with improvement in the margins and liquidity profile.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	98.87	95.39
PAT	Rs. Cr.	3.94	3.12
PAT Margin	(%)	3.98	3.27
Total Debt/Tangible Net Worth	Times	1.02	0.31
PBDIT/Interest	Times	2.72	1.92

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

India Ratings & Research vide press release dated April 15, 2021 has mentioned CEPL's long-term rating as 'BB- Issuer Not Cooperating' and short-term rating as 'A4+ Issuer Not Cooperating' as on April 15, 2021

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
11 Oct 2021	Letter of Credit	Short Term	10.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	3.50	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	35.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	21.50	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Reaffirmed)
13 Jul 2020	Bank Guarantee	Short Term	56.50	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	13.50	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE BBB- Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	35.00	ACUITE A3 Reaffirmed
Yes Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	12.90	ACUITE A3 Reaffirmed
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	0.10	ACUITE BBB- Negative Reaffirmed Stable to Negative
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A3 Reaffirmed
Yes Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	7.60	ACUITE BBB- Negative Reaffirmed Stable to Negative
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.40	ACUITE BBB- Negative Reaffirmed Stable to Negative

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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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