

Press Release

Capital Power Systems Limited

April 11, 2022

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.50	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	12.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITÉ BBB**' (read as **ACUITE triple B**) on the Rs.12.50 Cr. bank facilities of Capital Power Systems Ltd (CPSL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned reflects improving operations, reputed clientele, healthy order book and long operational track record of the company. The rating also takes into account the moderate financial risk profile of the company marked by healthy network and comfortable gearing. However, the above mentioned strengths are partially offset by the company's intensive working capital operations along with the intensity of competition in industry due to tender driven nature of operations restricting its profit margins.

About the Company

Incorporated in 1988, Capital Power Systems Ltd (CPSL) is promoted by Mr. Pawan Bansal and Mr. Mahesh Kumar. CPSL is engaged in manufacturing of electricity meters, gas meters and water meters. Its manufacturing plant is located at Noida, Uttar Pradesh with an installed capacity of 30 lakhs. CPSL supplies meters majorly to state power utilities along with certain private sector players. Also, since last few years they have started to supply for turnkey projects wherein installation, operation and maintenance of meters are also being done.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of CPSL to arrive at the rating.

Key Rating Drivers

Strengths

>Experienced management and long operational track record.

CPSL has a long operational track record of over three decades in this line of business. The promoters of the company, Mr. Pawan Kumar Bansal and Mr. Mahesh Kumar Gupta have an experience of more than decade in this industry and are involved in the day-to-day operations. The experience of the promoters has helped the company to maintain a healthy

relationship with its customers and suppliers of 7-15 years. The experience of promoter is also reflected through improving scale of operations in FY 2021, CPSL has recorded a Y-o-Y growth of 29.28% in its top line. The company has achieved a revenue of Rs.136.90 Cr in FY2021 as against Rs.105.89 Cr in FY2020. Further, CPSL has already achieved a turnover of Rs 115 Cr till January 2022 and are expecting to close this fiscal year with revenue of more than Rs 160 Cr. Acuite believes that the company will benefit from the long operational track record, promoter's extensive experience along with long standing relationship with its customers and suppliers.

>Healthy Order Book

CPSL has an healthy order book position of more than Rs 150 Cr as on January 2022. The company is also expected to benefit from the National smart grid mission launched by Government of India to make Indian power infrastructure cost effective and reliable. This policy aims to replace Rs.25 crore conventional meters with smart meters by March 2025 and is driven by a government JV IntelliSmart Infrastructure through a BOOT (Build, Own, Operate, Transfer) model wherein Energy Efficiency Services Ltd (EESL) will undertake all the capital and operational expenditure with zero upfront investment from states and utilities. The company expects orders worth Rs.300 Cr which are under consideration from IntellisSmart Infrastructure Pvt Ltd for supply, maintenance and operations of smart meters which are to be delivered in FY23 and FY24.

Acuite believes that the company has a good revenue visibility over the medium term.

>Moderate Financial Risk Profile

The financial risk profile of the company stood moderate marked by strong networth, comfortable gearing and stretched debt protection metrics. Tangible Networth of the company stood at 52.23 Cr as on 31st March, 2021 as against 39.43 Cr as on 31st March, 2020. Improvement in networth is due to accretion of profits in reserves and also issue of optionally convertible non-cumulative preference shares of 10.05 Cr in FY 2021. Gearing of the company stood comfortable at 0.84 times as on 31st March, 2021 as against 1.96 times as on 31st March, 2020. The gearing has improved due to pre-payment of unsecured and other loans. TOL/TNW stood at 1.05 times in FY2021 as against 2.38 times in FY2020. Debt protection metrics are stretched with Interest coverage ratio of 1.8 times in FY2021 as against 1.43 times in FY2020 and DSCR of 0.90 times in FY2021 as against 1.20 times in FY2020. DSCR of the company in FY2021 is stretched due to prepayment of loan from others of 5.33 Cr in FY21. The DSCR of the company without such prepayments stands at 1.37 times in FY21.

Acuite believes that the financial risk profile of the company is expected to remain comfortable on account of absence of any debt funded capex and expected improvement in operating performance of the company.

Weaknesses

>Intensive Working capital Operations

CPSL's working capital operations are intensive marked by Gross Current Asset days (GCA days) of 237 in FY2021 as against 396 in FY2020. The debtor days stood at 188 days in FY2021 as against 280 days in FY2020. The debtor days has improved on account of better realization from the state owned power utilities in FY 2021. However, the company extends a credit period of 120 days after billing to its customer. Inventory holding period improved to 29 days in FY2021 to 78 days in FY2020 as higher billings were done towards the end of FY2021. Creditor days of the company improved to 28 days in FY2021 as against 75 days in FY2020. The raw materials are imported by opening an LC with a duration of 90-120 days whereas domestic purchases are majorly done through advance payments. The average bank limit utilisation in the past 11 months ended February 2022 stood at 59.57%.

Acuite expects the working capital management to remain intensive over the medium term on account of the high credit period extended to its customer majorly being state owned power utilities.

>Tender based nature of operations and competitive industry

CPSL manufactures and supplies meters to various state owned power utilities. The revenue of the company is highly dependent on the number and value of tenders floated by such

power utilities. Additionally, supply to such state owned power utilities exposes the company to the risk of elongated receivables. The company also faces intense competition from several players in the industry in procuring orders through bidding, immense competition for procuring tenders leads to very competitive pricing which in turn lead to stress on the operating margins. Moreover, susceptibility of raw material pricing again keeps margin vulnerable and a key sensitivity factor.

Rating Sensitivities

- Significant improvement in scale of operations and profitability margins
- Elongation of working capital cycle leading to deterioration in liquidity position

Material covenants

None

Liquidity Position: Adequate

CPSL has an adequate liquidity marked by expected sufficient net cash accruals in the range of Rs 6.82-10.02 Cr as against maturing debt obligations of Rs 0.82-1.58Cr in medium term. However, Net Cash Accruals generated by company were of Rs 4.19 Cr as against debt obligation of Rs 5.33 Cr in FY21, the same is due to high repayment obligations in FY21 on account of prepayments of loan from NBFC's taken for working capital requirements. Average bank limit utilisation in the past 11 months ended February 2022 stood at 59.57%. The company maintains an unencumbered cash balances of Rs. 0.07 Cr as on March, 2021 as against Rs.0.24 Cr as on 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.

Outlook: Stable

Acuite believes that the outlook of the CPSL will remain 'Stable' over the medium term on account of experienced management and comfortable financial risk profile. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenues while improving profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital requirements leading to deterioration of its financial risk profile and liquidity

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	136.98	105.89
PAT	Rs. Cr.	2.89	2.37
PAT Margin	(%)	2.11	2.24
Total Debt/Tangible Net Worth	Times	0.84	1.96
PBDIT/Interest	Times	1.80	1.43

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

Brickwork Ratings, vide its press release dated February 11, 2021 had denoted the rating to Capital Power Systems Ltd (CPSL) as 'BWR BB /Stable /BWR A4' (Issuer Not Cooperating)' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.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:
Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB Stable Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

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