

Press Release

Capital Power Systems Limited

March 29, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	4.50	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	34.50	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	31.50	-	ACUITE A2 Assigned
Bank Loan Ratings	60.50	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	131.00	-	-

Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on Rs.34.50 Crore, and its short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on Rs.60.50 Cr. bank facilities, and has also assigned its long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on Rs. 4.50 Crore and short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on Rs. 31.50 Cr. bank facilities of Capital Power Systems Limited (CPSL). The outlook is '**Stable**'.

Rationale for rating assigned and reaffirmed

The rating assigned and reaffirmation 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 lakh meter per annum. 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 more than 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 three 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 company has achieved a revenue of Rs.129.75 Cr in FY2022 as against Rs.136.98 Cr in FY2021. Further, CPSL has already achieved a turnover of Rs 147.12 Cr till January 2023 and are expecting to close this fiscal year with revenue of more than Rs 180 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.

Moderate Financial Risk Profile

The financial risk profile of the company stood moderate marked by strong network, comfortable gearing and stretched debt protection metrics. Tangible Network of the company stood at 55.85 Cr. as on FY 22 as against 52.23 Cr as on 31st March, 2021. Improvement in network is due to accretion of profits in reserves. Gearing of the company stood comfortable at 0.90 times as on 31st March 2022 as against 0.84 times as on 31st March, 2021. TOL/TNW stood at 1.31 times as on FY 2022 as against 1.05 times in FY2021. Debt protection metrics are stretched with Interest coverage ratio of 2.16 times in FY 2022 as against 1.8 times in FY2021 and DSCR of 1.67 times in FY 2022 as against 0.90 times in FY2021. 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 306 days in FY 2022 as against 237 in FY2021. The debtor days stood at 208 days in FY 2022 as against 188 days in FY2021. Inventory holding period is held at 79 days in FY 2022 as against 29 days in FY2021. Creditor days of the company deteriorated to 83 days in FY 2022 as against 28 days in FY2021. The raw materials are imported by opening an LC with a credit period of 90 to 180 days whereas for domestic purchases upto 60 days. The average bank limit utilisation in the past 6 months ended January 2023 stood at 65.10%. 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 is 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 4.90 Cr as against maturing debt obligations of Rs 0.82 Cr in FY 22 as against net cash accruals generated by company 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 utilization in the past 9 months ended January 2023 stood at 65.10%. CPSL maintains unencumbered cash balances of Rs. 0.01 Cr as on March, 2022 as against Rs.0.07 Cr as on March, 2021.

Outlook: Stable

Acuité 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	129.75	136.98
PAT	Rs. Cr.	3.67	2.89
PAT Margin	(%)	2.83	2.11
Total Debt/Tangible Net Worth	Times	0.90	0.84
PBDIT/Interest	Times	2.16	1.80

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

IVR vide its press release dated 11.04.2022, had downgraded the company to IVR BB+/A4+; INC.

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

In order to inform the investors about complexity of instruments, Acuité 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
29 Apr 2022	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Reaffirmed)
	Letter of Credit	Short Term	11.50	ACUITE A2 (Assigned)
	Proposed Bank Facility	Long Term	0.20	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	17.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	13.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	4.00	ACUITE A2 (Assigned)
	Cash Credit	Long Term	2.00	ACUITE BBB Stable (Assigned)
	Proposed Cash Credit	Long Term	2.50	ACUITE BBB Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	3.00	ACUITE BBB Stable (Assigned)
	Working Capital Term Loan	Long Term	1.45	ACUITE BBB Stable (Assigned)
	Working Capital Term Loan	Long Term	0.35	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Assigned)
11 Apr 2022	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Proposed Cash Credit	Long Term	2.50	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A2 Reaffirmed
Bandhan Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	13.00	ACUITE A2 Reaffirmed
Yes Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	17.00	ACUITE A2 Reaffirmed
Yes Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE A2 Assigned
Bandhan Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE A2 Assigned
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	9.50	ACUITE A2 Assigned
Indusind Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE A2 Reaffirmed
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB Stable Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.73	ACUITE BBB Stable Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.27	ACUITE BBB Stable Assigned
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE BBB Stable Assigned
Bandhan Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB Stable Reaffirmed
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE BBB Stable Reaffirmed
Indusind Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	11.50	ACUITE A2 Reaffirmed
Indusind Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	9.00	ACUITE A2 Assigned
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Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.97	BBB Stable Reaffirmed
Bandhan Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.45	ACUITE BBB Stable Reaffirmed
Indusind Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	0.35	ACUITE BBB Stable Reaffirmed
Indusind Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	0.09	ACUITE BBB Stable Assigned
Bandhan Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	0.14	ACUITE BBB Stable Assigned
Axis Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	3.00	ACUITE BBB Stable Reaffirmed

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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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