

Press Release

Capital Electech Private Limited

February 09, 2023



Rating Assigned

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|-------------------------------|-----------------------|
| Bank Loan Ratings | 1.50 | ACUITE BB Stable Assigned | - |
| Bank Loan Ratings | 123.50 | - | ACUITE A4+ Assigned |
| Total Outstanding Quantum (Rs. Cr) | 125.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BB**' (read as **ACUITE Double B**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.125.00 crore bank facilities of Capital Electech Private Limited (CEPL). The outlook is '**Stable**'.

Rationale for rating assigned

The assigned rating takes into cognizance the experienced management and vintage of operations, moderate financial risk profile marked by healthy net worth and comfortable debt protection metrics and debt profile. However, the rating is constrained by working capital intensive nature of operations marked by high debtor realization period and the movement of receivables would remain key rating sensitivity going forward.

About the Company

Capital Electech Private Limited., established in August 2005 with its registered office at D-1/1, Rajapuri Uttam Nagar, New Delhi, is in the business of upgrading existing power substations and transmission lines, and setting up new power stations, generator sets and transmission lines on turnkey basis for the central and state government entities, and public and private sector organizations. Mr. Om Prakash Sharma, Mr. Vikas Sharma and Mr. Sachin Sharma are the promoters and directors in the company.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of Capital Electech Private Limited to arrive at the rating.

Key Rating Drivers

Strengths

Established track record of operations and experienced management

CEPL was incorporated in the year 2005 and is engaged in electrification works for government departments on EPC basis. The directors/promoters of the company hold

experience of more than a decade in the aforementioned line of business. The extensive experience of the promoters is reflected through the established relationships with the company's customers and suppliers. Acuité believes that CEPL will continue to benefit from its established track record of operations and experienced management.

Moderate Financial risk profile

Company's financial risk profile is moderate marked by healthy net worth and comfortable debt protection metrics. Tangible net worth as on 31 st March 2022 stood at Rs. 88.69 Cr as against 82.20 Cr in FY 2021. Total debt of Rs. 32.17 Cr in FY 2022 consists of Rs. 31.22 Cr of unsecured loans given by directors and related parties which is interest bearable with flexible repayment on demand and Rs. 0.95 Cr of CPLTD. Consequently, gearing (Debt to Equity) remained comfortable at 0.36 times in FY 2022. Interest coverage ratio has moderated slightly from 3.84 times in FY 2021 to 3.76 times in FY 2022 due to increase in interest cost. DSCR has improved from 1.54 times in FY 2021 to 1.86 times in FY 2022 due to decline in CPLTD in FY 2022. NCA/TD stood at 0.21 times while TOL/TNW stood at 0.92 times in FY 2022. Going forward, in the absence of any debt funded capex plans the financial risk profile is expected to improve in the near term.

Weaknesses

Working capital intensive operations

Operations of the company are working capital intensive as evident by GCA days of 461 in FY 2022. High GCA days is a result of stretched debtor realization period. Debtor days have stretched from 282 in FY 2020 to 497 days in FY 2021 partly due to disruptions of covid pandemic and further moderated but remained high at 388 in FY 2022. The company raises the bills on completion of works or matching of materials. 60% of the payment is received on supply of materials which is paid within 15-20 days of delivery, another 30% is paid on completion of erection works and 10% retained payment is done after completion of projects. As per the management, the high debtor days is a result of the 40% (30%+10%) of retained payments for projects since the erection works takes almost 5-6 months after which 30% of payment is received and another 10% is paid after completion of project. The payment authorities generally release majority of the fund in the last quarter of any fiscals hence the retained payments after supply of materials and delay from authorities has resulted in stretched debtors. As of September 2022 debtors stand at 84.87 Cr. Of this, Rs. 32.36 Cr of debtors are beyond 180 days which are outstanding from Jammu and Kashmir region. As per the management, clients in Jammu and Kashmir region are facing funding problems which is resulting in high debtors. Company's inventory holding period remains comfortable at 12 days in FY 2022. Creditor days have declined from 378 days in FY 2021 to 195 days in FY 2022. High creditor period is a result of stretched debtors because of which company is delaying the payments to its suppliers. Company has availed OD limit Rs. 0.50 Cr from HDFC bank and Rs. 1.00 Cr cash credit from Punjab National bank and the limit utilization between November 2021 to June 2022 on a consolidated level remained at -424.50% since company is depositing funds in the accounts.

Highly competitive and cyclical nature of industry

CEPL is into the business of upgrading existing power substations and transmission lines, and setting up new power stations, generator sets and transmission lines on EPC basis. The company faces intense competition from the presence of several mid to big size players in the industry. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts and susceptibility to inherent cyclicity in the sector. Acuité believes that CEPL is comfortably positioned in the industry on account of established relationship with reputed clientele and experienced management.

Rating Sensitivities

- Improvement in scale of operations.
- Working capital management.
- Debtor realization period.

Material covenants

None.

Liquidity Position

Adequate

Company has adequate liquidity. In FY 2022 company generated net cash accrual of Rs. 6.74 Cr against maturing debt obligation of Rs. 1.91 Cr. Going forward company is expected to generate Net cash accrual of Rs. 8.63 Cr against repayment of Rs. 6.24 Cr of unsecured loan and maturing debt obligation of Rs. 0.95 Cr in FY 2023 and NCA of Rs. 9.42 Cr against repayment of Rs. 7.41 Cr of unsecured loan in FY 2024. Limit utilization is comfortable since company is depositing funds in cash credit account. Unencumbered cash and bank balance stood at Rs. 10.69 Cr of which Rs. 6.25 Cr is the amount deposited in OD and CC accounts. Investments of Rs. 20.07 Cr in FY 2022 consists majorly of Fixed deposits investments which are entirely lien marked as margin money for Bank Guarantees availed.

Outlook: Stable

Acuité believes that the company will continue to maintain a 'Stable' outlook over near to medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues and improvement in profitability level and margin, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than expected working capital requirements.

Other Factors affecting Rating

None.

Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 114.69 | 100.84 |
| PAT | Rs. Cr. | 6.48 | 6.73 |
| PAT Margin | (%) | 5.65 | 6.67 |
| Total Debt/Tangible Net Worth | Times | 0.36 | 0.42 |
| PBDIT/Interest | Times | 3.76 | 3.84 |

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

Brickwork vide its press release dated 17th January 2023, has mentioned the rating of CEPL as '[BWR]BB/Stable' Issuer Not Cooperating as on 17th January 2023.

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, 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:
Not Applicable

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|----------------------|----------------|-------------------------|------------------|----------------|----------------|------------------|-------------------|-------------------------------|
| HDFC Bank Ltd | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 16.50 | ACUITE A4+ Assigned |
| Punjab National Bank | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 55.00 | ACUITE A4+ Assigned |
| Punjab National Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 1.00 | ACUITE BB Stable Assigned |
| Not Applicable | Not Applicable | Proposed Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | Simple | 52.00 | ACUITE A4+ Assigned |
| HDFC Bank Ltd | Not Applicable | Secured Overdraft | Not Applicable | Not Applicable | Not Applicable | Simple | 0.50 | ACUITE BB Stable Assigned |

Contacts

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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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