

Press Release
CAPITAL POWER SYSTEMS LIMITED
May 21, 2024

Rating Assigned and Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	44.49	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	36.51	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	32.51	-	ACUITE A2 Assigned
Bank Loan Ratings	94.49	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	208.00	-	-

Erratum: In the last PR dated May 6, 2024, under the section strengths subsection improvement in revenue and profitability it was erroneously mentioned as January 2023 in place of January 2024 and the same is rectified in this errata.

Rating Rationale

Acuite has reaffirmed its long-term rating of 'ACUITÉ BBB' (read as ACUITE triple B) on Rs. 36.51 Crore, and its short-term rating of 'ACUITE A2' (read as ACUITE A two) on Rs. 94.49 Cr. bank facilities, and has also assigned its long-term rating of 'ACUITÉ BBB' (read as ACUITE triple B) on Rs. 44.49 Crore and short-term rating of 'ACUITE A2' (read as ACUITE A two) on Rs. 32.51 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 networth 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.

Unsupported Rating

Not Applicable

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 wherein few customers are associated with the company for even three decades.

Improvement in revenue and profitability

CPSL has recorded an improvement in its top line in the financial year 2023. CPSL's net revenue stood at Rs. 150.89 Cr. in FY23 wherein th gross revenue stood at Rs. 177.66 Cr. vis-a-vis Rs. 129.75 Cr. in FY22. However, in the current financial year 2024, the revenue is expected to grow on account of sales as of January 2024, the company has registered Rs.149.79 Cr. of gross revenue and expects to record an additional Rs. 59 Cr. of gross revenue by March 2024. The company has order book size of Rs. 553.76 Cr. on 13th April 2024 giving medium term revenue visibility. EBITDA Margin of the company improved and stood at 9.98% in FY 23 as against 8.17% in FY22. The PAT margins improved to 3.15% in FY23 vis-à-vis 2.83% in FY22. The improvement in margin is account of better absorption of fixed cost resulting into better margins. Further, the company has orders in hand which commands better margins as compared to previous years.

Moderate Financial Risk Profile

Financial Risk profile of the company is moderate marked by moderate net-worth, low gearing and moderate debt protection metric. Tangible Net worth of the company stood at Rs. 61.53 Cr. in FY 23 as against Rs 55.85 Cr. in FY22. Improvement in Net worth is due to accretion of profits in reserves. Total Debt of the company stood at Rs. 44.22 Cr. in FY 23 as against Rs. 50.41 Cr. in FY22. Total Debt of the company comprises of Long-term loan of Rs. 4.01 Cr., CPLTD of Rs. 0.93 Cr. and Rs. 39.28 Cr. of Short-term loan as on FY 2023. Gearing of the company stood comfortable at 0.72 times in FY23 as against 0.90 times in FY22. However the gearing is expected to increase on account of additional debt taken in FY24 for CAPEX. TOL/TNW stood at 1.18 times in FY 23 as against 1.31 times in FY22. Debt protection metrics are moderate with Interest coverage of 2.06 times in FY23 as against 2.16 times in FY22 and DSCR of 1.68 times in FY23 as against 1.67 times in FY22. The coverage indicators of the company is expected to improve in FY24 on account of better margins.

Weaknesses

Intensive Working Capital Operations

CPSL's working capital operations are intensive marked by Gross Current Asset days (GCA days) of 265 days in FY23 as against 306 days in FY22. The debtor days improved substantially and stood at 121 days in FY 2023 as against 208 days in FY 22 and 188 days in FY21. Inventory holding period majorly increased to 104 days in FY 23 from 79 days in FY22 as few of the orders were billed in next fiscal. Creditor days of the company remained stable at 82 days in FY 23 as against 83 days in FY22. 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 February 2024 stood at 70%. Acuité 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

- Improvement in turnover with sustained or improved profitability margins
- Any further elongation in working capital cycle impacting the liquidity position of the company
- Timely completion and stabilization of newly added production capacity

Liquidity Position

Adequate

CPSL has an adequate liquidity marked by sufficient net cash accruals of Rs 6.15 Cr. as against maturing debt obligations of Rs 0.68 Cr. in FY 23. The company is expected to generate net cash accruals in the range of 12-15 Cr. in FY25 & FY26 as against CPLTD in the range of Rs. 5-6 Cr. giving adequate liquidity buffer for growth capital. Average bank limit utilization in the past 14 months ended February 2024 stood at 70%. CPSL maintains unencumbered cash balances of Rs. 2.06 Cr. as on March 31, 2023 as against Rs.0.01 Cr. as on March 31, 2022.

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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	150.89	129.75
PAT	Rs. Cr.	4.75	3.67
PAT Margin	(%)	3.15	2.83
Total Debt/Tangible Net Worth	Times	0.72	0.90
PBDIT/Interest	Times	2.06	2.16

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

Not Applicable

Any other information

FY23 onwards instead of gross revenue net revenue of the company is factored in for rating. The gross revenue of the company for FY23 stood at Rs. 177.66 Cr.

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 Mar 2023	Bank Guarantee (BLR)	Short Term	17.00	ACUITE A2 (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	6.00	ACUITE A2 (Assigned)
	Bank Guarantee (BLR)	Short Term	4.00	ACUITE A2 (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	15.00	ACUITE A2 (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	9.50	ACUITE A2 (Assigned)
	Bank Guarantee (BLR)	Short Term	13.00	ACUITE A2 (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	7.00	ACUITE A2 (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	1.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	10.73	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	3.27	ACUITE BBB Stable (Assigned)
	Letter of Credit	Short Term	11.50	ACUITE A2 (Reaffirmed)
	Letter of Credit	Short Term	9.00	ACUITE A2 (Assigned)
	Proposed Cash Credit	Long Term	1.97	ACUITE BBB Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	1.45	ACUITE BBB Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	0.14	ACUITE BBB Stable (Assigned)
	Working Capital Term Loan	Long Term	0.35	ACUITE BBB Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	0.09	ACUITE BBB Stable (Assigned)
	Working Capital Term Loan	Long Term	3.00	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	15.00	ACUITE A2 (Assigned)
	Bank Guarantee (BLR)	Short Term	17.00	ACUITE A2 (Assigned)
	Bank Guarantee (BLR)	Short Term	4.00	ACUITE A2 (Assigned)
	Bank Guarantee (BLR)	Short Term	13.00	ACUITE A2 (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB Stable (Assigned)
		Long		ACUITE BBB Stable

29 Apr 2022	Cash Credit	Term	10.00	(Assigned)
	Cash Credit	Long Term	2.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Reaffirmed)
	Letter of Credit	Short Term	11.50	ACUITE A2 (Assigned)
	Proposed Cash Credit	Long Term	2.50	ACUITE BBB Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	0.20	ACUITE BBB Stable (Assigned)
	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)
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
Yes Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	25.49	ACUITE A2 Reaffirmed
Axis Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	24.50	ACUITE A2 Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE A2 Reaffirmed
Indusind Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	4.00	ACUITE A2 Reaffirmed
Axis Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	4.00	ACUITE A2 Assigned
Yes Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.51	ACUITE A2 Assigned
ICICI Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	26.00	ACUITE A2 Assigned
Indusind Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.00	ACUITE BBB Stable Reaffirmed
Yes Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	6.00	ACUITE BBB Stable Reaffirmed
Axis Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	14.00	ACUITE BBB Stable Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	11.59	ACUITE BBB Stable Reaffirmed
Axis Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	4.00	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.91	ACUITE BBB Stable Assigned

ICICI Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	13.00	ACUITE BBB Stable Assigned
Indusind Bank Ltd	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.50	ACUITE A2 Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	23 Jun 2023	Not avl. / Not appl.	07 Dec 2029	Simple	25.00	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	23 Jun 2023	Not avl. / Not appl.	07 Mar 2025	Simple	0.78	ACUITE BBB Stable Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	23 Jun 2023	Not avl. / Not appl.	07 Dec 2027	Simple	0.80	ACUITE BBB Stable Assigned
Indusind Bank Ltd	Not avl. / Not appl.	Working Capital Term Loan	08 Sep 2020	Not avl. / Not appl.	31 Aug 2024	Simple	0.08	ACUITE BBB Stable Reaffirmed
Axis Bank	Not avl. / Not appl.	Working Capital Term Loan	10 Dec 2021	Not avl. / Not appl.	01 Dec 2026	Simple	2.84	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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