



Press Release

Capital Power Systems Limited August 24, 2020

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities	24.00	IVR BBB-;Stable (IVR Triple B Minus with Stable Outlook)	Assigned
Short Term Bank Facilities	48.00	IVR A3 (IVR A Three)	Assigned
Proposed Long Term/Short Term Bank Facilities	3.00	IVR BBB-;Stable/ IVR A3 (IVR Triple B Minus with Stable Outlook and IVR A Three)	Assigned
Total	75.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Capital Power Systems Limited derives comfort from long track record of operations, satisfactory order book position reflecting satisfactory short-term revenue visibility, stable operating performance though moderation expected in FY20 and reputed clientele. The rating also considers tender driven nature of operation with high competition from large domestic and overseas players, vulnerability of profitability to adverse fluctuation in raw material prices and working capital intensive nature of operations with elongation in operating cycle

Upward Factors

- Growth in scale of operations with improvement on profitability leading to improvement in cash accruals on a sustained basis.
- Sustenance of the capital structure and improvement in debt protection metrics
- Improvement in the collection period leading to improvement in liquidity

Downward Factors

- Elongation in the operating cycle impacting the liquidity
- Moderation in the capital structure



Press Release

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

- **Long Track record of operations**

CPSL has been in business for more than three decades. Long standing presence in the industry has helped the Company establish relationship with customers and suppliers. The client base includes various Government Power Utilities and State Electricity Boards including various prestigious turnkey contractors. The consistent drive to build the brand all these years has helped the company to create a unique place in the market.

- **Satisfactory order book position reflecting satisfactory short-term revenue visibility**

CPSL is engaged in manufacturing of Single Phase & Three Phase Smart Electronic Meters, moulded engineering Meter Boxes for housing Energy Meters, GPRS Modem, Meters based on LPR Technology and Smart Meters. Company's unexecuted order book of Rs 147 crore as on June 30, 2020 coupled with possibility of conversion of tenders worth Rs. 125 crore provides medium term visibility to the company's cash inflows. The fact that the company is participating in the tenders of state discoms at pan India level, mitigates the revenue concentration risks to a large extent.

- **Stable operating performance though moderation in FY20**

The total operating income of the company increased by CAGR of ~51% over the past three fiscals ending FY19 with a y-o-y growth of ~20% mostly driven by repeat orders from existing customers and addition of few new customers. However, the scale of business moderated by 18% in FY20 due to impact of restrictions in imports resulting from Covid 19 as CPSL imports raw material from Japan, USA, China and Hong Kong and also during the year of general elections (FY20), the company received orders which were scheduled for FY20 to be executed in FY19 itself. Another reason for dip in operating revenue was the temporary debarment of company from Meerut division of UP Electricity Department in April 2019 which was taken back in October 2019 when CPSL approached senior officials for detailed presentation. The profit margins of the company remained moderate with the



Press Release

EBITDA margin in the range of 6.58%-7.89% and the PAT margin in the range of 1.95-2.23% during FY18-FY20.

- **Reputed clientele**

The Company has built up a strong clientele over the years. Some of the reputed clients served by the company are Uttar Pradesh Power Corporation Limited, Indraprastha Gas Ltd, Bajaj Electricals, IOCL, GAIL etc. Presence of reputed clientele reduces the counter party default risk.

- **Key Rating Weaknesses**

- **Tender driven nature of operation with high competition from large domestic and overseas players**

CPSL has been engaged majorly into tender driven business concerning manufacturing, supply and installation and operating activities of meters. No significant investment or expertise is required for the system integration work carried out by CPSL, which results in low entry barriers in the business. Hence, the company faces high competition from large domestic and overseas meter manufacturers having a better cost structure due to their large scale of operations and relatively longer track record in meter manufacturing.

- **Vulnerability of profitability to adverse fluctuation in raw material prices**

As portion of the raw materials for the module manufacturing are imported, the profitability of the company remains exposed to fluctuations in raw material prices. However, the risk is mitigated to some extent given the relatively short cycle from order to delivery. Although, the profitability indicators remain exposed to volatility and linkage between price movement of raw material used in production of meters.

- **Working capital intensive nature of operations with elongation in operating cycle**

CPSL's operations are working-capital intensive as counter parties mainly being government agencies/departments the receivables days of the company also remains elongated owing to procedural delays. The average collection days remains high at 232 days whereas inventory days stood at 81 days for FY20. The operating cycle of the company remained elongated at around 273 days in FY20. The average working capital utilisation remained high at ~86% in the trailing 12 months ended June 2020. Going forward, effective management of working capital and early realisation of receivables is a key rating monitorable.



Press Release

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity ratios of the company remained healthy with the current ratio at 1.68x and the quick ratio at 1.41x as on March 31, 2020. The company has generated sufficient cash accrual of around Rs.3.66 Cr in FY20 (P) as against repayment of Rs.1.32 Cr in FY20 (P). The company is expected to generate steady cash accrual over the near medium term (Rs. 4.34 crore in FY21 and Rs. 6.03 crore in FY22 respectively) against scheduled repayment obligation (Rs.1.23 crore in FY21 and Rs. 1.24 crore in FY22 respectively). Further, the company has adequate gearing headroom due to its comfortable capital structure. However, CPSL's utilization of the bank limits was high at around ~86% over the last 12 months ended on June 2020.

About the Company

Capital Power Systems Ltd. (CPSL) was incorporated on 20th September, 1988. The company is promoted by Mr. Mahesh Kumar and Mr. Pawan Kumar. The company deals in supplying Three-Phase Smart meters and other measuring tools/equipment. CPSL manufactures High Quality Single Phase and Three Phase Smart electronic meters, moulded engineering Meter boxes for housing energy meters. The company has its sole manufacturing facility in Sector-4, Noida, Uttar Pradesh with an installed production capacity of 30 lacs unit per annum.

Financials (Standalone):

For the year ended* As on	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	129.82	105.61
EBITDA	10.49	8.33
PAT	2.93	2.36
Total Debt	48.38	60.59
Tangible Net worth*	37.32	39.56
EBITDA Margin (%)	8.08	7.89



Press Release

For the year ended* As on	31-03-2019	31-03-2020
PAT Margin (%)	3.09	2.92
Overall Gearing Ratio (x)^	0.74	0.65

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	24.00	IVR BBB-/Stable	-	-	-
2.	Bank Guarantee	Short Term	48.00	IVR A3	-	-	-
3.	Proposed Long Term/Short Term Bank Facilities	Long Term/Short Term	3.00	IVR BBB-;Stable/ IVR A3			

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

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Press Release

positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	24.00	IVR BBB- /Stable
Short Term Bank Facilities- Bank Guarantee	-	-	-	48.00	IVR A3
Proposed Long Term/Short Term Bank Facilities	-	-	-	3.00	IVR BBB- ;Stable/ IVR A3