

Infomerics Valuation And Rating Pvt. Ltd.

Agrawal Power Private Limited

December 09, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
1	Bank Facilities- Long Term	24.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
2.	Bank Facilities- Short Term	119.00	IVR A3 (IVR A three)
	Total	143.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Agrawal Power Private Limited (APPL) derives comfort from its experienced promoters, satisfactory track record of operation of the company and reputed clientele base with relatively low counter party payment risks. The ratings also factor in its sustained growth in scale of operation, comfortable capital structure and near to medium term revenue visibility backed by satisfactory order book. The rating strengths are partially offset by its low bargaining power with its clients, competitive nature of the industry and stretched operating cycle.

Key Rating Sensitivities

Upward factors

- Growth in scale of operations and profit margins
- Improvement in gearing position and debt metrics
- Considerable increase in order book
- Improvement in the operating cycle

Downward factors

- Deterioration in the overall gearing to more than 1.5x.
- Further Elongation of operating cycle

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Promoters

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Mr. Anupam Pandit has a vast experience of over 25 years in the electricity distribution department. He was associated with the Madhya Pradesh Electricity Board (MPEB) till 2010. Mr Sanjeev Agrawal is the renowned businessman of Bhopal and has 11 years of experience in electricity distribution. He also has venture in educational and construction sector. He has bagged certain awards for his contribution to educational sector. Mr Sanjeev Agrawal is at the helm of affairs of the company.

Satisfactory track record of operation

The company has established a satisfactory track record in execution of electrification projects over the past years.

Reputed clientele base with relatively low counter party payment risks

APPL has secured projects under various government electrification schemes which are mostly funded by Asian Development Bank and Rural Electrification Limited. Further, the clientele of the company mainly includes government departments and government companies which indicates low counterparty risk.

Revenue visibility marked by satisfactory order book

As on September 30, 2019, APPL had a total order book of about Rs.312.64 crore (about 2.2 times of its FY19 revenue) which is proposed to be completed in next 12-24 months indicating a near to medium term revenue visibility.

Sustained growth in scale of operation

The total operating income of the company grew at a CAGR of ~24% during FY17-FY19 with a y-o-y growth of ~35%. The growth was mainly fuelled by increase in government spending on rural electrification. The EBITDA margins stood moderate in the range of 8%-9% in the last two years. The company has earned a gross cash accruals of Rs.5.84 crore in FY19 (Rs.4.12 crore in FY18).

Comfortable capital structure

The company has a comfortable capital structure as on the past three account closing dates. The long-term debt equity ratio and overall gearing (excluding mobilization advances) remained comfortable at 0.02x and 0.54x as on March 31, 2019 (0.02x and 0.66x in March 31, 2018). Total indebtedness as reflected by TOL/TNW remained comfortable at 1.37x as on March 31,

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2019. Further, during FY20, the promoters have converted unsecured loans amounting to Rs.10 crore to subordinated unsecured loans (quasi equity) which will also support the capital structure going forward. The interest coverage ratio improved from 1.95x in FY18 to 2.39x in FY19 and remained satisfactory. However, the Total debt to GCA remained satisfactory at 3.56x in FY19 (5.27x in FY18). Further, the credit risk profile of the company remained comfortable as the company has low repayment obligation of Rs.0.34 crore in FY20 and has no near-term debt raising plans.

Key Weaknesses

Low bargaining power with its clients

The company has low bargaining power in terms of pricing and credit terms as most of its clients are government companies and orders are tender driven.

Competitive nature of the industry

The electrical contracting industry is highly crowded with presence of many players with varied statures & capabilities. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the sustenance and healthy growth of the industry.

Stretched operating cycle

The operating cycle of the company is stretched due to its elongated collection period over the past years. However, the closing receivables of the company also comprise retention money as per the terms of the contract. Further, the clientele of the company are mostly government companies or departments where the bill clearance process is bit slow and tends to happen in the last quarter.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

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Liquidity

The liquidity profile of the company is expected to remain adequate marked by its healthy projected cash accrual of Rs.6.64 crore in FY20 vis -a- vis its debt repayment obligations of Rs.0.34 crore in FY20. Further, the company has also low repayment in FY21 and FY22 and has no debt raising plans in the near term. However, with limited credit from suppliers the company's dependence on bank lines remain high and the average cash credit utilisation of the company remained at ~83% during the past 12 months ended September, 2019 indicating a moderate liquidity cushion.

About the Company

Incorporated in 2007, Agrawal Power Private Limited (APPL) is founded by Mr Sanjeev Agrawal and Mr. Anupam Pandit of Bhopal, is engaged in business of turnkey EPC contracts for power sector and manufacturing of Plain Cement Concrete (PCC) poles. APPL has executed various projects in Madhya Pradesh, whereas company has also increased its presence into Chhattisgarh and Maharashtra. APPL mainly executes government projects on contract basis under various government electrification.

Financials (Standalone):

	(Rs. crore)	
For the year ended*	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	106.70	143.77
EBITDA	9.40	11.99
PAT	3.64	5.31
Total Debt	21.74	20.78
Tangible Net worth	33.12	38.40
EBITDA Margin (%)	8.81	8.34
PAT Margin (%)	3.37	3.67
Overall Gearing Ratio (x)	0.66	0.54

*Classification as per Infomerics' standards

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 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – Cash Credit	Long Term	24.00	IVR BBB-/Stable	-	-	-
2.	Short Term Non-Fund Based Limits – Letter of Credit/Bank Guarantee	Short Term	119.00	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:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for 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	-	Various	On demand	24.00	IVR BBB-/Stable
Short Term Bank Facilities – Letter of Credit/Bank Guarantee	-	Various	Less than one year	119.00	IVR A3