

Press Release

Gupta Power Infrastructure Limited

March 20, 2020

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Fund Based Facilities- Term Loan	34.11* (including proposed limit of Rs.30.00 crore and reduced from Rs.58.42 crore)	IVR A / Stable Outlook (IVR Single A with Stable Outlook)	Reaffirmed
Long Term Fund Based Facilities- Cash Credit	1010.00 (including proposed limit of Rs.20.00 crore)	IVR A / Stable Outlook (IVR Single A with Stable Outlook)	Reaffirmed
Short Term Non-Fund Based Facilities – Bank Guarantee/Letter of Credit	2231.58 (including proposed limit of Rs.51.58 crore)	IVR A1 (IVR A One)	Reaffirmed
Total	3275.69		

*Rs.4.11 crore outstanding as on December 31, 2019

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Gupta Power Infrastructure Limited (GPIL) continues to derive comfort from its experienced promoters with long & established track record of the company, diversified revenue profile with reputed and diversified clientele. The ratings also consider its stable financial performance in FY19 & 9MFY20 with comfortable gearing and debt protection metrics. Further, its satisfactory order book indicating a strong near to medium term revenue visibility and favorable industry outlook also underpin the ratings. However, these rating strengths continue to be partially offset by susceptibility of its profitability to volatile input prices, exposure to intense competition and elongated receivable cycle leading to moderate working capital intensity.

Key Rating Sensitivities:

Upward Factor:

- Continuous inflow of orders with improvement in scale of operations, profitability and cash accruals by securing repeated orders from its existing set of customers through timely and successful completion of contracts on a sustained basis.
- Improvement in the capital structure, debt protection metrics and liquidity.

Downward factor:

- Deterioration in overall gearing to over 2 times.
- Moderation in the scale of operations and/or deterioration in profit margin impacting the liquidity and debt coverage indicators.

- Significant debt funded capex.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters with long & established track record of the company**

Incorporated in 1961 and taken over by the existing management in 1970, GPIL has a long track record of over five decades in the cables and conductor industry. The promoters are vastly experienced in this industry and associated with this industry for more than five decades. The company has consolidated its presence in this sector as one of the leading and reputed players over a period of time. Mr. Mahendra Gupta, Managing Director who have been associated with the company for more than two decades, majorly looks after the operations of the company. His son, Mr. Abhishek Gupta, an MBA from Drexel University, USA, look after the operations of the company. They are well supported by a management team comprising of highly qualified & experienced professionals.

- **Diversified revenue profile**

The company's product portfolio comprises aluminium, aluminium-alloy, and aluminium-steel reinforced conductors, high tension and low-tension power cables, control cables, instrumentation and signal cables, Ariel bunched cables, and industrial cables. Further, the company also undertakes EPC contracts for sub-stations and has been focussing on increasing its retail reach in this segment since FY16. The manufacturing operations contributes around Rs.3073.94 crore [~87% of its total operating income in FY19] [Rs.2915.12 crore (~88% of TOI) in FY18] and the EPC division contributes around Rs.441.52 crore [~13% of its TOI in FY19] [Rs.408.52 crore (~12% of TOI) in FY18]. Further, the company also has a geographically diverse manufacturing base as it has three facilities located at Odisha (East India), Chennai (South India) and Kashipur (North India).

- **Reputed and Diversified Clientele**

The company has various well-recognised companies, which include various government departments and large private players. The repeat orders received from its clientele validates its capabilities. Further, the top 10 customers of the company contributed around 47% of the annual turnover during FY19, indicating a diversified clientele profile.

- **Satisfactory order book indicating strong near to medium term revenue visibility**

The company has a satisfactory order book position (Rs.2342.65 crore as on December 31, 2019; of which Rs.719.91 crore is for the EPC segment) which is equal to 0.67 times of its FY19 revenue. The orders for cables and conductors are expected to be executed over the next 6 to 12 months while the EPC orders will be executed over the next 1.5-2 years, indicating a satisfactory near to medium term revenue visibility.

- **Stable financial performance in FY19 and 9MFY20**

GPIL's total operating income (TOI) witnessed a year on year growth of ~7% in FY19 as compared to FY18 driven by rise in contribution from the EPC business along with healthy demand for the manufacturing division. Strong execution capability and timely delivery of orders has led to continuous order-flow that has helped the company to scale up its operations. Further, with growth in operations, profitability and cash accruals have continued to remain satisfactory in FY19. The EBITDA margin improved from 5.31% in FY18 to 5.52% in FY19. The PAT margin also increased from 1.69% in FY18 to 1.80% in FY19. Further, during 9MFY20, the company's total operating income stood at Rs.2323.64 crore with a PBT of Rs.70.39 crore. Infomerics expects that the financial performance of GPIL will continue to remain stable in the near term with an upside bias.

- **Comfortable debt protection metrics**

The capital structure of the company continued to remain comfortable with long term debt equity ratio of 0.14x and overall gearing of 1.39x as on March 31, 2019 as against long term debt equity ratio of 0.20x and overall gearing of 1.44x as on March 31, 2018. Moreover, total indebtedness of the company as reflected by TOL/ANW also remained comfortable at 2.03x as on March 31, 2019 (1.90x as on March 31, 2018). Interest coverage ratio was comfortable at 1.92x in FY19 (1.83x in FY18). However, total debt to GCA though improved yet remained high at 9.66x in FY19 (10.10x in FY18). Infomerics expects that the debt protection metrics of the company will continue to remain comfortable.

- **Favorable outlook of cable/conductors and wires in India**

The outlook for cable/conductors is favorable on account of continuous increase in government's focus to increase power generation capacity in the country along with reduction in Transmission and Distribution (T&D) losses and thrust on rural electrification.

Key Rating Weaknesses

- **Exposure to intense competition**

The industry is characterized by high fragmentation with a large number of unorganised players, constraining the pricing power of organised sector players. Apart from the unorganized sector, GPIL also faces competition from the organized sector players. Due to highly competitive intensity the profit margins of the company continue to remain range bound over the years.

- **Susceptibility of profitability to volatile input prices**

Major raw materials used in the manufacture of cables/conductors are aluminium and aluminium alloys, steel and copper which are usually sourced from large players at proximate distances. Prices of these commodities are volatile in nature generally impacting the profitability of players in the segment. Nevertheless, the company has managed to mitigate this risk to some extent due to its ability to pass on the increase in cost partially to its customers, albeit with a time lag.

- **Elongated receivable cycle with moderate working capital intensity**

The receivable cycle of GPIL remained high, largely on account of elongated payment cycle from its clients and sizeable retention money in the EPC division. Clients for the manufacturing division receive credit of 60-180 days. However, at times payments are stretched further (mainly by government entities). The operating cycle of the company stood high at 93 days in FY19 (96 days in FY17 and 94 days in FY18). The high working capital intensity is further reflected from the high average utilization of 89% for the past twelve months ended December, 2019.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

GPIL's liquidity profile is expected to remain adequate marked by its strong cash accruals vis-a-vis its debt repayment obligations. However, the overall gearing remained moderate at 1.39x as on March 31, 2019 and the average working capital limit utilisation stood on the higher side at ~89% for the past twelve months ended December 31, 2019 indicating a moderate liquidity

cushion. Infomerics believes that the company's cash flows are sufficient to service its debt obligations over the next three years.

About the Company

Gupta Power Infrastructure Ltd (GPIL) was set up in 1961 and was taken over by the family of Late Shri Jagdish Rai Gupta of Odisha in 1970. The company commenced operation with manufacture of Alloy Conductors in Odisha, in which it was the pioneer. Thereafter, the company also ventured into manufacturing of Cables and Alloy Cables. The product portfolio of the company consists of aluminium, aluminium-alloy, and aluminium-steel reinforced conductors, high tension and low-tension power cables, control cables, instrumentation and signal cables, ariel bunched cables and industrial cables. These products find application mainly in power generation, transmission and distribution utilities. In 2008, the Company also ventured into EPC segment where it started with setting up of sub-stations and distribution lines for electrification of villages. The company has also been exploring to enhance its focus in the retail wires segment (house wires). It has established its distribution network of retailers for selling cables under the brand name of 'Rhino' under the franchisee model.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	3285.11	3515.76
EBITDA	174.33	194.03
PAT	55.46	63.15
Total Debt	708.32	753.86
Tangible Net worth	492.68	544.05
EBITDA Margin (%)	5.31	5.52
PAT Margin (%)	1.69	1.80
Overall Gearing Ratio (x)	1.44	1.39

*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.	Term Loan	Long Term	34.11 * (including proposed limit of Rs.30.00 crore)	IVR A/ Stable Outlook	IVR A/ Stable Outlook (December 03, 2018)	-	-

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
			and reduced from Rs.58.42 crore)				
2.	Cash Credit	Long Term	1010.00 (including proposed limit of Rs.20.00 crore)	IVR A/ Stable Outlook	IVR A/ Stable Outlook (December 03, 2018)	-	-
3.	Letter of Credit/Bank Guarantee	Short Term	2231.58 (including proposed limit of Rs.51.58 crore)	IVR A1	IVR A1 (December 03, 2018)	-	-

*Rs.4.11 crore outstanding as on December 31, 2019

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)	Ratings Assigned/ Outlook
Long Term Fund Based Facilities – Term Loan	-	-	December, 2020	34.11 * (including proposed limit of Rs.30.00 crore and reduced from Rs.58.42 crore)	IVR A/ Stable Outlook
Long Term Fund Based Facilities- Cash Credit	-	-	-	1010.00 (including proposed limit of Rs.20.00 crore)	IVR A/ Stable Outlook
Short Term Non-Fund Based Facilities – Bank Guarantee/Letter of Credit	-	-	-	2231.58 (including proposed limit of Rs.51.58 crore)	IVR A1
Total				3275.69	

**Rs.4.11 crore outstanding as on December 31, 2019*