



## Press Release

**Core energy systems Limited (CESL)**

**February 20<sup>th</sup>, 2024**

### **Ratings**

<b>Instrument / Facility</b>	<b>Amount (INR crore)</b>	<b>Ratings</b>	<b>Rating Action</b>	<b><u>Complexity Indicator</u></b>
Long Term Bank Facilities	34.25 (Increased from Rs.14.00)	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Reaffirmed and Outlook revised to Stable from Positive	<a href="#">Simple</a>
Short Term Bank Facilities	36.75 (Increased from Rs.16.00)	IVR A4+ [IVR A Four Plus]	Reaffirmed	<a href="#">Simple</a>
Short Term Bank Facilities	20.00	IVR A4+ (IVR A Four Plus)	Assigned	
<b>Total</b>	<b>Rs.91.00 Crore (Rupees Ninety-One crore only)</b>			

**Details of Facilities are in Annexure 1**

### **Detailed Rationale**

The reaffirmation of the ratings to the bank loan facilities of Core energy systems Limited (CESL) derive strength from substantial growth in total operating income, comfortable order book position reflects healthy revenue visibility, established relationship with reputed players in the market, operates in niche segment and long track record of the company coupled with qualified and experienced management. However, the rating strengths are partially offset by decline in profitability margins during FY23, moderate capital structure, elongated working capital cycle & tender driven nature of business in highly fragmented & competitive EPC segment.

### **Key Rating Sensitivities:**

#### **Upward Factors**

- Sustained improvement in revenue and profitability along with improvement in working capital cycle leading to improvement in credit profile.



## Press Release

### **Downward Factors**

- Any further deterioration in profitability and/or further deterioration in working capital cycle leading to deterioration in liquidity and credit profile.

### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

##### **Stable revenue growth and order book:**

CESL's consolidated revenue improved on y-o-y basis to Rs.108.24 crore in FY23 registering a growth of 72.39%. The growth is driven by steady execution of orders. As per 9MFY24, CESL has reported revenue of Rs.81.58 crore.

CESL has strong order book of Rs.556 crore (5x of FY23 revenue), which provides strong revenue visibility. The orders are from reputed customers like Nuclear Power Corporation of India Limited, Vedanta Ltd, BPCL Limited, Tata Power Ltd, Oil and Natural Gas Corporation Limited, Bhabha Atomic Research Centre and Reliance Industries Limited

##### **Established relationship with reputed players in the market.**

The group has established relationship with reputed market players such as, Tarapur atomic power station, Nuclear Power Corporation of India Limited, Vedanta Limited, BPCL Limited, Tata Power Limited, Oil and Natural Gas Corporation Limited, Bhabha Atomic Research Centre and Reliance Industries Limited. The overall top ten customers accounted for nearly ~52% of the total consolidated revenue of CESL for FY23.

##### **Operates in niche segment**

CESL operates in a very niche segment of trading & supply of equipment's in turnkey projects as well as operation & maintenance of such equipment's for municipal bodies and other private customers and caters throughout India. As the government focuses on speeding up approvals for new nuclear projects, the group is well-placed to take advantage of this changing opportunity.

##### **Long track record of the company coupled with qualified and experienced management**



## Press Release

CESL has more than two decades of track record in the business. All the promoters are having extensive experience of more than two decades in the nuclear, oil and gas and infrastructure industry.

### **Key Rating Weaknesses**

#### **Weak Operating Margins**

CESL operating margins in terms of EBITDA margins have declined significantly to 2.16% in FY23 as compared to 6.18% in FY23 due to change in revenue mix. During FY23, revenue share of low margin construction contract segment was at 68% as compared to 31% in FY22, also CESL has invested heavily in human resources in order to execute order book. However, as per management, with stable execution of orders, EBITDA margins are expected to be in the range of 9%-12% through FY24-FY26.

#### **Moderate Capital Structure**

CESL capital structure in terms of overall gearing as well as TOL/TNW has deteriorated during FY23 and at 1.95x and 4.68x respectively (FY22:1.76x and 2.58x respectively). TOL/TNW has deteriorated due to higher provision for expenses at the end of FY23 which are being expensed out during FY24 against balance execution of orders. Overall gearing has deteriorated due to higher working capital utilisation as well as preference shares of Rs.25.99 crores considered as debt as remaining maturity is less than five years. Infomerics expects credit profile to improve from FY24 onwards with improvement in EBITDA margins.

#### **Elongated working capital cycle**

CESL has improved on y-o-y basis though remained elongated working capital cycle with net working capital cycle of 106 days in FY23 as compared to 156 days in FY22. Collection days though improved remained high and at 100 days at the end of FY23 (FY22:138 days). Collection days were higher as CESL mainly deals with government entities which generally takes additional time to clear the payment. Also, around Rs.7.33 crore debtors are more than 180 days as on 31<sup>st</sup> December 2023, any write offs against these debtors may impact the net worth of CESL. However, as per management, these debtors are realised by end of FY24.

**Analytical Approach:** Consolidated Approach



## Press Release

Infomerics Ratings has consolidated the business and financial risk profiles of CESL and its two wholly owned subsidiaries namely Western Core Limited (UK Based) and Core Energoatom Machinery LLC (Russia Based) and one associate company namely Pompetravaini Core India Private Limited together referred to as the 'Core Group'. Infomerics has taken a consolidated approach as these entities are in similar line of business and common ownership.

### **Applicable Criteria:**

[Criteria on Default Recognition](#)

[Criteria of assigning Rating Outlook](#)

[Rating Methodology for Trading Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Consolidation of Companies](#)

### **Liquidity – Adequate**

The repayment obligation for FY24 ranges between Rs.0.35 to Rs.0.65 crore which is expected to be met through sufficient targeted net cash accruals of Rs.2.22 crore in FY24. CESL expects to maintain cash and bank balance of Rs.11 crore to Rs.20.00 crore through FY24-FY26. Further CESL had fixed deposits amounting to Rs.18.89 crore at the end of FY23. The average bank limit utilisation for the working capital facilities remained around 76% during the last twelve months ended as on December 31, 2023, which provides enough cushion for working capital requirements. The projected DSCR of 3.95x in FY24 indicate comfortable liquidity position of the group in meeting its debt obligations. Thus, the overall liquidity position of the group remained Adequate.



## Press Release

### **About the Group and Company**

Established in 1997 CESL engaged in providing a range of high-end engineering solutions technology products, value added services as well as turnkey engineering solution work of HV & EHV substation and transmission and distribution line and catering to niche sectors like, nuclear, oil & gas, and defence markets.

### **Financials (Consolidated)\*:**

**(In Crore)**

<b>For the year ended / As on</b>	<b>31-03-2022</b>	<b>31-03-2023</b>
	<b>(Audited)</b>	<b>(Audited)</b>
Total Operating Income	64.60	108.24
EBITDA	3.99	2.34
PAT	1.99	1.42
Total Debt	38.92	49.79
Tangible Net-Worth	22.10	25.52
<b>Ratios</b>		
EBITDA Margin (%)	6.18	2.16
PAT Margin (%)	3.05	1.28
Overall Gearing Ratio (x)	1.76	1.95

*\* Classification as per Infomerics' standards*

**Status of non-cooperation with previous CRA:** CRISIL Ratings in its press release dated July 20, 2023, has continued to maintain the rating in issuer non cooperating category due to non-availability of information.

Acuite Ratings & Research Limited in its press release dated October 17, 2023, has continued to maintain the rating in issuer non cooperating category due to non-availability of information.

**Any other information:** None



## Press Release

### Rating History for last three years:

Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
	Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in (Mar 17, 2023)	Date(s) & Rating(s) assigned in 2021- 22	Date(s) & Rating(s) assigned in 2020-21
Long Term Bank Facilities	Long Term	34.25 (Increased from Rs.14.00)	IVR BB+/Stable	IVR BB+/ Positive	-	-
Short Term Bank Facilities	Short Term	36.75 (Increased from Rs.16.00)	IVR A4+	IVR A4+	-	-
Short Term Bank Facilities	Short Term	20.00	IVR A4+	-	-	-

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### About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.





## Press Release

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit [www.infomerics.com](http://www.infomerics.com).

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy, or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long term bank facilities – Cash Credit	-	-	Revolving	5.25	IVR BB+/ Stable
Long term bank facilities – Cash Credit	-	-	Revolving	3.75	IVR BB+/ Stable
Long term bank facilities – Overdraft	-	-	Revolving	4.00	IVR BB+/ Stable
Long term bank facilities – Overdraft	-	-	Revolving	16.25	IVR BB+/ Stable
Long term bank facilities – Open Cash Credit	-	-	Revolving	5.00	IVR BB+/ Stable
Short term bank facilities – Bank Guarantee	-	-	-	7.25	IVR A4+
Short term bank facilities – Bank Guarantee	-	-	-	4.50	IVR A4+
Short term bank facilities – Bank Guarantee	-	-	-	25.00	IVR A4+
Short term bank facilities – Bank Guarantee	-	-	-	20.00	IVR A4+



## Press Release

**Annexure 2: List of companies considered for consolidated analysis: Not Applicable**

**Annexure 3: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/len-coreenergy-feb24.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:** Not Applicable

**Annexure 5: Complexity level of the rated Instruments/Facilities**

**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](http://www.infomerics.com).