

Alpha Pacific Systems Private Limited

April 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	6.00	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable)
Long Term / Short Term Bank Facilities	4.00	CARE BB; Stable / CARE A4 (Double B ; Outlook: Stable/ A Four)	Revised from CARE BB-; Stable / CARE A4 (Double B Minus ; Outlook: Stable / A Four)
Total Bank Facilities	10.00 (Rs. Ten Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Alpha Pacific Systems Private Limited (APSPL) is on account of improvement in scale of operations and profitability, which also resulted in improvement in the company's liquidity. Ratings continue to factor in experienced promoters coupled with long track record of operations and sizable order book in-hand. The ratings however continue to remain constrained by small scale of operations, moderate profitability margins, Elongated collection period and moderate capital structure. Further, the ratings remain constraint by Risk associated with participating in tenders and intense competition in the industry, and Project execution risk inherent in various contracts.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sizable improvement in total operating income above Rs. 100.00 crore on sustained basis.
- Improvement in operating cycle days of below than 60 days on a sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade

- Decline in profitability margins as marked by PBILDT and PAT margins of below 7% and 2% respectively
- Deterioration in overall gearing ratio of above 3.00 times on sustained basis.
- Decrease in net worth of the company below Rs 5.00 crore.

Detailed description of the key rating drivers

Key Rating Strength:

Experienced management

The company is promoted by Mr. Neeraj Kumar and Mr. Subhash Singh Soam. Both the directors are engineers by qualification and have more than a decade of experience with this entity and family run business of both the directors in engineering, procurement and construction services to government and private companies particularly in civil infrastructure, automation and solar panel installation divisions in northern India. Both look after day-to-day operations of the company. Moreover, the company has well qualified and experienced engineers along with supervisory staff supporting the operations of the company.

Moderate order book position

The unexecuted order book of the company as on February 28 2022 stood at Rs. 119.52 crore which is equivalent to ~3.00x the total operating income achieved in FY21, thereby giving near term revenue visibility. The tenure of the contract is around 1-2 years. However, the present unexecuted order book is concentrated towards few contracts from UJVN Limited, NHPC Limited and Public Works Department, Delhi. Hence, effective, and timely execution of the orders has a direct bearing on the margins.

Key Rating Weakness:

Small scale of operations

The scale of operations stood small, as marked by a total operating income and gross cash accruals of Rs.33.65 crore and Rs.1.66 crore respectively for FY21 as against Rs.33.26 crore and Rs.1.46 crore in FY20. The total operating income in FY21 was in line with the previous year levels. Further, during 11MFY22 (refers to the period April 01,2021 to March 22,2022; based on provisional results) the company scale of operations improved to ~Rs. 42.52 crores and Gross cash accruals to Rs. 2.81 crores. The improvement in scale is on account of higher contracts executed and gross cash accruals improves on account of improvement in margins. Further, the net worth base was relatively high at Rs 10.53 crore as on March 31, 2021. The small scale limits the company's financial flexibility in times of stress and deprives it of scale benefits.

Moderate Profitability Margin

The profitability margins of the company stood moderate for FY21 as marked by PBILDT and PAT margin of 10.20% and 3.36%, respectively, as against 9.59% and 2.75% for FY20. The increase in PBILDT margin is primarily on account of better

¹Complete definition of the ratings assigned are available at [HYPERLINK "http://www.careedge.in" www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

margin contracts executed. PAT margins improve in line with PBILDT margin. During 11MFY22 (refers to the period April 01,2021 to March 22,2022; based on provisional results) the company has achieved profitability margins marked by PBILDT and PAT margin of 11.28% and 5.60%.

Elongated Operating Cycle

The operating cycle of the company improved and remain elongated as marked by 74 days for FY21 as against 84 days for FY20 on account of improvement in inventory period. The company maintains inventory in the form of raw materials at different sites for smooth execution of contracts. Also, the company accounts for work in progress inventory in the books of accounts for under progress work, resulting in average inventory days of 13 days in FY21 as against 57 days on FY20. APSPL receives a high payable period of around 4-5 months from its suppliers; while on the other hand, realization of receivables owing to lengthy clearance processes with the government departments results in a similar collection period. The average creditor's period and average collection period for FY21 stood high at 185 days and 124 days as against 172 days and 145 days respectively for FY20. Further the working capital limits remain 90% utilised for the twelve months period ending February 28, 2022.

Moderate Solvency Position:

As on March 31, 2021, the debt profile of APSPL's comprises of secured loans of Rs. 3.20 crores, working capital borrowings of Rs.5.15 crores, and unsecured loans of Rs.5.23 crores. The unsecured loan to the tune of Rs. 3.55 crores, Rs.4.25 crores, Rs. 5.23 crores in FY19, FY20 and FY21 respectively is classified as quasi equity as the same is subordinated to debt as per sanction letter. The capital structure of the company stood moderate marked by overall gearing ratio which stood at 0.79x as on March 31, 2021 as against 0.91x as on March 31, 2020.

Further, owing to moderate profitability levels, the debt service coverage indicators of the company stood moderate as marked by interest coverage and total debt to GCA of 2.77x and 5.03x, respectively for FY21 as against 2.54x and 5.21x respectively for FY20 (A).

Business risk associated with tender-based orders

The company majorly undertakes government and private projects, which are awarded through the tender-based system. The company is exposed to the risk associated with the tender-based business, which is characterized by intense competition. The growth of the business depends on its ability to successfully bid for the tenders and emerge as the lowest bidder. Further, any changes in the Government policy or Government spending on projects are likely to affect the revenues of the company.

Highly competitive industry

Industry is characterized by fragmented and competitive nature as there are a large number of players. Furthermore, the projects are awarded through tender-based system. Due to the increasing level of competition, the profits margins remain range bound. Currently, given the volatile economic environment, there has been slowdown in awarding of new contracts, which has resulted in sluggish growth being witnessed by the industry. Liquidity related concerns and execution challenges continue to impact the sector in the country.

Liquidity: Stretched

The liquidity position of the company remained stretched as marked by 90% utilized working capital limits for the past 12 months ending February 28, 2022. Further, the company has tightly matched gross cash accruals vis-s-vis repayment obligations. The company has generated gross cash accruals of Rs. 1.66 crore in FY21 and Rs. 2.81 crore during 11MFY22 and is expected to generate envisage gross cash accruals of Rs. 3.10 crore in FY22 against repayment obligation of Rs.1.00 crore in same year.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Construction](#)

About the Company

Alpha Pacific Systems Private Limited (APSPL) is a private limited company incorporated in July 2016. The company succeeded an erstwhile proprietorship firm established by the director Mr. Neeraj Kumar established in 2000. Currently the overall operation of the firm is managed by both the directors i.e. Mr. Neeraj Kumar and Mr. Subhash Singh Soam. APS provides engineering, procurement and construction services to government and private companies particularly in civil infrastructure i.e. Engineering, Procurement & Construction for Hydro Projects, Road Construction; automation and solar panel installation divisions in northern India. The major raw material used in the project execution is cement, dust, soil etc. that is procured as per the tender specification. APS has been executing various projects for government entities/government departments i.e. Public Works Department (PWD), National Hydroelectric Power Corporation (NHPC), Uttarakhand Jalvidyut Nigam Limited (UJVN), Tehri Hydro Development Corporation Limited (THDC), Larsen and Turbo, APS Hydra Private Limited.

In the recent development, the company has become the authorized dealer of Siemens India for undertaking the automation projects.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	11MFY22 (UA)
Total operating income	33.26	33.65	42.52
PBILDT	3.19	3.43	4.80
PAT	0.91	1.13	2.38
Overall gearing (times)	0.91	0.79	2.61
Interest coverage (times)	2.54	2.77	5.11

A: Audited; UA: Unaudited NA: Not Available

*Refers to the period from April 1, 2021 to March 22, 2022.

Status of non-cooperation with previous CRA: India Ratings has conducted the review and has maintained Alpha Pacific Systems Private Limited as "Not Cooperating" vide its press release dated April 06, 2021.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	Repayable on Demand	6.00	CARE BB; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	4.00	CARE BB; Stable / CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	6.00	CARE BB; Stable	1)CARE BB-; Stable (22-Mar-22)	1)CARE BB-; Stable (18-Mar-21)	1)CARE BB-; Stable (09-Mar-20) 2)CARE BB-; Stable (04-Apr-19)	1)CARE B+; Stable (04-Jun-18)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	4.00	CARE BB; Stable / CARE A4	1)CARE BB-; Stable / CARE A4 (22-Mar-22)	1)CARE BB-; Stable / CARE A4 (18-Mar-21)	1)CARE BB-; Stable / CARE A4 (09-Mar-20) 2)CARE BB-; Stable / CARE A4 (04-Apr-19)	1)CARE B+; Stable / CARE A4 (04-Jun-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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