Jha Power Corporation
January 06, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	12.00	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	1.50	CARE B+; Stable / CARE A4 (Single B Plus; Outlook: Stable/ A Four)	Assigned
Short Term Bank Facilities	4.00	CARE A4 (A Four)	Assigned
Total Bank Facilities	**17.50 (₹ Seventeen Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

Rating assigned to the bank facilities of Jha Power Corporation (JPC) remains constrained on account of small though growing scale of operations coupled with low order book position, moderate profitability margins, leveraged capital structure, weak debt coverage indicators and elongated operating cycle. The ratings, further, remain constrained on account of intense competition due to exposure to tender driven nature of business and absence of price escalation clause in majority of the contracts coupled with proprietorship constitution of the firm. The ratings, however, draws strength from experienced proprietor coupled with long track record of operations.

Rating Sensitivities

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

- Improvement in scale of operations of Rs.40.00 crore and above over the medium term on sustained basis.
- Improvement in capital structure marked by overall gearing ratio below 3.00x on a sustained basis.
- Improvement in profitability margins as marked by PBILDT and PAT margin above 15.60% and 5.00% respectively, on a sustained basis.
- Improvement in collection period to 90 days.

Negative Factors– Factors that could lead to negative rating action/downgrade:

- Deterioration in the capital structure as marked by overall gearing ratio of above 5.50x.
- Decline in profitability margins as marked by PBILDT margins below 6.00%.
- Elongation of collection period beyond 225 days

Detailed description of the key rating drivers

Key Rating Weaknesses

Small albeit growing scale of operations coupled with low order book position

JPC's scale of operations remains small as marked by total operating income of Rs. 17.39 crore during FY22 as against Rs. 9.25 crore in FY21 (FY refers to the period April 1 to March 31). The increase in scale of operations is on account of increased number of tenders executed. Nevertheless, the scale remains modest, it limits the firm's financial flexibility in times of stress and deprives it of scale benefits. Though, the risk is partially mitigated by the fact that the scale of operations has registered y-o-y growth of ~88% in FY22. Further, the firm has generated total income from operation of Rs. ~10.00 crore during 8MFY23. The firm is expected to generate envisage total income from operation of ~Rs. 25.00 crore in FY23 backed by order in hand coupled with uncertified work done to the tune of ~Rs. 4.00-5.00 crore which will be certified by end of December 2022. Further, JPC has an unexecuted order book position of Rs. 56.21 crore as on November 30, 2022 which is equivalent to 3.23 times of total operating income of FY22, thereby providing the medium term revenue visibility. Further, the firm has L1 category orders amounting to Rs. ~10.00 crore. The tenure of the construction contracts to be executed varies from 6 months to 1.5 years depending upon the type of contract bid and awarded, thereby reflecting revenue visibility over the medium term. Further, effective, and timely execution of the orders has a direct bearing on the total income and margins of the firm.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Moderate profitability margins
In FY22, profitability margins reflect moderation as marked by PBILDT and PAT margin of 9.20% and 3.49% respectively, in FY22 as against 15.57% and 4.62% respectively, in FY21. The moderation in margins is on account lower margin tenders executed. Further, in 8MFY23, the firm has registered PBILDT margin of 15.01% as the firm has executed tenders with higher margins. PBILDT margin and PAT margin is expected to improve over the medium term as envisage as the firm start bidding and executing tender which fetch better margins.

Leveraged capital structure and weak debt coverage indicators
As on March 31, 2022, the debt profile of the firm comprises of term loan (Car loan and Home loan) of Rs. 3.25 crore, unsecured Proprietor's loan of Rs. 2.92 crore and working capital bank borrowings of Rs. 5.57 crore. The capital structure of the firm stood leveraged as marked by overall gearing ratio of 3.54x as on March 31, 2022 as against 4.77x as on March 31, 2021. The marginal improvement is primarily on account of accretion of profit to net reserves against limit debt levels. Going forward, capital structure of the firm is expected to remain leveraged considering high debt levels, as envisaged. Owing to high debt levels leading to high interest cost, debt coverage indicators of the firm stood weak as marked by interest coverage ratio and total debt to GCA ratio of 1.84x and 16.06x respectively as on March 31, 2022 as against 1.64X and 20.71x respectively as on March 31, 2021. Going forward, debt coverage indicators are expected to remain in line with the previous year, as envisaged.

Elongated operating cycle
The operating cycle of the firm has improved though remained elongated as marked by 135 days in FY22 as against 243 days in FY21. Elongation in operating cycle is primarily due to high collection period and inventory period. The inventory is in the form of work in progress at different sites on account of procedural delays involved in the certifications/validation of the invoices for the contracts executed resulting in an average inventory holding period of 81 days for FY22. The company raises bills on milestone basis i.e. on the completion of certain percentage of work and thereon which gets acknowledge by client after necessary inspection of work done by the respective departments. Post the inspection, department clears the payment after deducting certain percentage of bill raised (ranging from 5-6% of bill amount) in the form of retention money, which they refund after submission of bank guarantee/ after one year from the completion of contract. Thus, the average collection period stood at 114 days for FY22. The firm receives a credit period of around 2 months from its suppliers resulting in average creditors of 60 days. The working capital limits remained almost fully utilized for the past 12 months period ending November, 2022.

Intense competition due to exposure to tender driven nature of business
The construction sector in India is highly fragmented with a large number of small and mid-sized players. Additionally, increase in execution challenges including regulatory clearances and longer gestation period of the projects collectively put pressure on the credit profile of the players. Furthermore, JPC majorly undertakes government projects which are awarded through the tender-based system. This exposes the firm towards 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. The same also puts pressure on the profitability margins of the firm. Moreover, the tenders are mainly dependent on the budgetary fund allocations. Therefore, the ability of the firm to secure new orders and successful execution with existing competition remains crucial from credit prospective.

Absence of price escalation clause in majority of the contracts
The prices of the key raw materials viz., Steel, cement, copper and cables and are very volatile in nature. The firm procures its raw materials from local vendors, which has risk of volatility in raw material prices. However, the firm has inbuilt price escalation Price Escalation Clause in the contracts in some of its contracts and majority of contracts does not have price escalation clause. Therefore, the firm cannot pass on the increase in raw material prices to its customers in some of the contracts. The same insulates the firm from any adverse fluctuation in raw material prices up to an extent. Ability of the firm to pass on increased price burden (for the future projects) to the customers in a timely manner and maintain profitability margins is critical from the credit perspective.

Proprietorship constitution of the firm
JPC's constitution being a proprietorship firm has the inherent risk of possibility of withdrawal of the proprietor's capital at the time of personal contingency and firm being dissolved upon the death of the proprietor. Moreover, proprietorship firms have restricted access to external borrowing as credit worthiness of proprietor would be key factors affecting credit decision for lenders.

Key Rating Strengths

Experienced proprietor coupled with long track record of operations

JPC was established as a proprietorship firm by Mr. Anupam Jha in 2001. The proprietor Mr. Anupam Jha, an Engineer by qualification, has an experience of more than two decades in the domain. The firm has successfully completed many government projects. It has developed good reputation in the market as well as robust relationship with its suppliers and customers. Further, the proprietor has adequate acumen about various aspects of business which is likely to benefit JPC in the long run.

Liquidity: Stretched

The liquidity position of the firm stood stretched characterized by ~100% utilized working capital limits for the last 12 months ending on November 30, 2022. Further, the firm has reported gross cash accruals to the extent of Rs. 0.73 crore during FY22 and is expected generate envisage GCA of Rs. 0.75 crore for FY23 against repayment obligation of Rs. 0.24 crore in same year. The firm has low free cash & bank balance which stood at Rs. 0.15 crore as on March 31, 2022.

Analytical approach: Standalone

Applicable Criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Service Sector Companies
Construction

About the Firm

Established in 2001, Jha Power Corporation (JPC) is a proprietorship concern based out of Allahabad (Uttar Pradesh). It is an EPC contractor, engaged in providing services of electrical and civil infrastructure to various private organisations and Government departments such as Indian Railways and private customers such as Rimjhim Group (Kanpur) and so on. It renders services related to designing, engineering, testing, commissioning and supply of cables and sub stations. JPC has registered its presence in on PAN India basis. Day to day operations of the firm is managed by its proprietor Mr. Anupam Jha, an Engineer by qualification. The proprietor has experience of two and half decades in the similar line of business.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)	9MFY23 (Prov.) *
Total operating income	9.25	17.39	NA
PBILDT	1.44	1.60	NA
PAT	0.43	0.61	NA
Overall gearing (times)	4.77	3.54	NA
Interest coverage (times)	1.64	1.84	NA

A: Audited; NA: Not Available; Prov.: Provisional
**refers to the period from April 1, 2022 to December 31, 2022.*

Status of non-cooperation with previous CRA: Not Applicable

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	12.00	CARE B+; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	1.50	CARE B+; Stable / CARE A4
Non-fund-based - ST-Letter of credit		-	-	-	4.00	CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	12.00	CARE B+; Stable				
2	Non-fund-based - ST-Letter of credit	ST	4.00	CARE A4				
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	1.50	CARE B+; Stable / CARE A4				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
3	Non-fund-based - ST-Letter of credit	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 instruments: CARE Ratings 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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About us:
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