

Elektrolites Power Private Limited

February 15, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	2.37	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	9.50 (Reduced from 10.50)	CARE BB+; Stable / CARE A4+ (Double B Plus; Outlook: Stable/ A Four Plus)	Reaffirmed
Short Term Bank Facilities	23.50	CARE A4+ (A Four Plus)	Reaffirmed
Total Bank Facilities	35.37 (Rs. Thirty-Five Crore and Thirty-Seven Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Elektrolites Power Private Limited (EPPL) continue to remain constrained on account its modest scale of operations with low revenue visibility, presence in a highly competitive and fragmented industry and vulnerability of margins to fluctuation in raw material prices and stretched liquidity.

The ratings, however, favourably take into account experience of its promoters with its long track record of operations in the industry, its established client base, diversified product profile, recognized in-house Research & Development facility and comfortable capital structure.

Rating Sensitivities

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

- Sustained increase in scale of operations of the company above Rs.65 crore
- Sustained improvement in profitability margin with PBILDT margin more than 11% and PAT margin more than 2%
- Sustained improvement in liquidity position with operating cycle less than 150 days.

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

- Decline in scale of operations below Rs.30 crore
- Deterioration in capital structure marked by overall gearing more than 1 times
- Deterioration of profitability margin with PBILDT margin below 5% on a sustained basis.
- Continued elongation of operating cycle to more than 250 days.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations and profitability

Total Operating Income (TOI) of the company has declined by 21% to Rs.35.14 in FY21 over FY20 (Rs.44.60 crore in FY20), mainly on account of delay in orders execution and business disruptions caused by the covid-19 pandemic.

The profitability of the company remained moderate marked by PBILDT margin and PAT margin of 10.14% and 3.58% respectively in FY21 as against 6.83% and 1.21% respectively in FY20. PBILDT margin of EPPL improved by 331 bps in FY21 over FY20, mainly on account of decrease in promotional & travel expenses along with raw material costs. With improvement in PBILDT margin along with decline in depreciation and interest expenses, the PAT margin of the company improved by 237 bps in FY21 over FY20. With increase in PAT level, GCA has also increased by 85% in FY21 over FY20 but stood low at Rs.1.95 crore in FY20.

Low order book

As on January 27, 2022, EPPL had an order book position of Rs.31.53 crore (against Rs.37.12 crore as on December 31, 2020) translating to 0.90 times of TOI of FY21, translating in near term revenue visibility. However, company receives regular orders from its clients.

Stiff competition due to fragmented nature of the industry with presence of many unorganized players

The company is present in the electrical equipment industry which is highly fragmented and competitive in nature with the presence of several domestic players. The high fragmentation restricts the pricing flexibility and bargaining power of players which is further intensified by tender-based nature of the industry. Overall, it restricts profit margins of players. However, with the various government bodies being the primary end users of the products, pre-qualification with the entities like State Power

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

Utilities (SPUs) act as an entry barrier in the industry. EPPL is a pre-qualified vendor with SPUs which provides credibility to its products.

Key Rating Strengths

Experienced management in the electrical equipment industry

Mr. Anil Kumar Saboo, Managing Director, looks after the overall affairs of the company. He is an engineer graduate by qualification and has experience of around 35 years in the industry. Currently, he is the President of IEEMA (Indian Electrical & Electronics Manufacturers Association). The company also has a team of qualified technical personnel to support the management. With the long-standing presence of the promoters in the industry, the promoters have established good clientele base in the industry.

Established track record of operations with established client base

EPPL was incorporated in the year 1994 and hence, has a track record of more than two decade in the industry having established relationship with its customers and suppliers. It has long business association with State Power Utilities (SPUs) of Rajasthan, Uttar Pradesh, Delhi, Gujarat, Chhattisgarh, Madhya Pradesh, Punjab, Orissa and Maharashtra. EPPL also supplies its products to leading Public Sector Undertakings (PSUs) such as NTPC Limited, Power Grid Corporation of India Limited and Bharat Heavy Electricals Limited (BHEL). Further, it sells its products to well-known private organizations like ABB India Limited. Moreover, it exports its product to African as well as South East Asian countries.

In FY21, top 5 customers of EPPL contributed around 50.74% of net sales with Larsen & Toubro Limited having highest contributor of around 22.34% in FY21. Further, top five suppliers formed around 52.43% of total purchase in FY21 as against 45.47% in FY20.

Diversified product profile

The company offers diversified products in electrical equipment industry. The products of the company include variety of semi-automatic and fully-automatic electrical equipment, Disconnectors/Air Break Switches, Surge Arresters, Load Break Switch and VCB Sectionalizer/Recloser. Company has also tied up with foreign entities for introduction of new products.

In-house testing facility and recognized in-house Research & Development Facility

The company is undertaking regular capex plan for enhancing its research and development facility and enhance the quality of its products. The company has advanced in-house testing equipment to test the various factors of products manufactured like High Voltage Test, Mechanical Endurance Test, Temperature Rise Test, Circuit Breaker Timing Analysis, Lightning Impulse Test, Reference Voltage Test, Residual Voltage Test, Partial Discharge Test, Accelerated Test and Test on Auxiliary Circuit. Further, it is actively working on R&D for galvanized switches and other automated switched gears with smart equipment and thus going forward will increase its product range and clientele base.

Comfortable capital structure with moderate debt coverage indicators

Though company availed new Covid-19 GECL working capital loans of Rs.2.37 crore in FY21, the capital structure of the company remained comfortable marked by overall gearing of 0.48 times as on March 31, 2021.

Debt coverage indicators of the company improved with total debt to GCA of 6.73 times as on March 31, 2021 from 12.08 times as on March 31, 2020 owing to higher GCA. Interest coverage also improved from 1.35 times in FY20 to 2.05 times in FY21 owing to increase in PBILD. However, the debt coverage indicators remained moderate.

Liquidity: Stretched

The liquidity position of the company continued to remain stretched during FY21 with further elongation in its operating cycle from 224 days in FY20 to 271 days in FY21 owing to increase in average inventory holding period and collection period due to decline in scale of operations. On absolute terms, the level of inventory & receivables in FY21 remains the same level as FY20. Debtors of the company stood high at Rs.20.35 crore as on March 31, 2021. However, the same has reduced to Rs.15.39 crore as on December 31, 2021, mainly on account of recovery of stuck debtors. The level of debtors on an average remains high mainly due to delayed payment from government department as well as from private customers, alongwith covid pandemic disruptions. Cash flow from operating activity decreased from Rs.9.03 crore in FY20 to Rs.2.84 crore in FY21 with similar level of inventory and receivables as compared to previous year. Further, in FY21 EPPL has utilized average of 80% of its working capital borrowing and 68% of BG and 50% of LC i.e non-fund based limit during last twelve months ended December 31, 2021. It has free cash and bank balance of Rs.0.19 crore as on March 31, 2021 while debt repayment obligations for FY22 are expected to be met out of its cash accruals. Further, it availed term loan of Rs.1.00 crore and Rs.1.37 crore under COVID-19 relief measures.

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](#)

[Manufacturing Companies](#)

About the Company

Jaipur (Rajasthan) based EPPL was earlier formed as a partnership concern with the business of trading in power station equipment in 1966. Over the years, it expanded its business along with the expansion of its product range. Further, it changed its constitution to private limited company in 1994. Presently, it is promoted by Mr. Anil Kumar Saboo along with family members. The promoters have also promoted Excel Associates Private Limited (EAPL) in 1995 with an objective to support EPPL for supplying steel casting and galvanized products. However, from FY21, EAPL's business operations have been discontinued. EPPL is engaged in the business of manufacturing/assembling, designing and testing of electrical items such as Isolators, Disconnectors/Air Break Switch, Surge Arresters, Load Break Switch, VCB Sectionalizer and other transmission line hardware. Further, the company has total 4 wind mills with an installed capacity of 2.40 Mega Watt (MW) located in the state of Rajasthan and has Purchase Power Agreement (PPA) agreement with respective SPU's.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (P)
Total operating income	44.60	35.14	22.64
PBILDT	3.05	3.56	NA
PAT	0.54	1.26	NA
Overall gearing (times)	0.49	0.48	NA
Interest coverage (times)	1.35	2.05	NA

A: Audited P: Provisional; NA: Not available

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	IS IN	Date of Issuance	Coup on Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Bank Guarantee		-	-	-	12.00	CARE A4+
Non-fund-based - ST-Letter of credit		-	-	-	11.50	CARE A4+
Fund-based - LT/ ST-Bank Overdraft		-	-	-	9.50	CARE BB+; Stable / CARE A4+
Fund-based - LT-Working capital Term Loan		-	-	March 2024	2.37	CARE BB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Type	Current Ratings		Rating history			
			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-Term Loan	LT	-	-	-	-	-	1)Withdrawn (06-Dec-18)
2	Non-fund-based - ST-Bank Guarantee	ST	12.00	CARE A4+	-	1)CARE A4+ (02-Feb-21)	1)CARE A3 (19-Nov-19)	1)CARE A3 (06-Dec-18)
3	Non-fund-based - ST-Letter of credit	ST	11.50	CARE A4+	-	1)CARE A4+ (02-Feb-21)	1)CARE A3 (19-Nov-19)	1)CARE A3 (06-Dec-18)
4	Fund-based - LT/ ST-Bank Overdraft	LT/ST*	9.50	CARE BB+; Stable / CARE A4+	-	1)CARE BB+; Stable / CARE A4+ (02-Feb-21)	1)CARE BBB-; Negative / CARE A3 (19-Nov-19)	1)CARE BBB-; Positive / CARE A3 (06-Dec-18)
5	Fund-based - LT-Working capital Term Loan	LT	2.37	CARE BB+; Stable				

* 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-Working capital Term Loan	Simple
2	Fund-based - LT/ ST-Bank Overdraft	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	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 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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