

Servotech Power Systems Limited

December 21, 2018

Rating			
Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	10.26	CARE BB+; Stable ; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable; ISSUER NOT COOPERATING*)	Issuer Not Cooperating; Based on best available Information
Long/Short-term Bank Facilities	4.00	CARE BB+; Stable/CARE A4+; ISSUER NOT COOPERATING Double B Plus; Outlook: Stable/A Four Plus; ISSUER NOT COOPERATING*)	Issuer Not Cooperating; Based on best available Information
Short-term Bank Facilities	3.50	CARE A4+; ISSUER NOT COOPERATING A Four Plus;(ISSUER NOT COOPERATING)	Issuer Not Cooperating; Based on best available Information
Total	17.76 (Rs. Seventeen Crore and Seventy Six Lakhs only)		

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Servotech Power Systems Limited to monitor the rating(s) vide e-mail communications/letters dated November 26, 2018, September 20, 2018, August 13, 2018, July 30, 2018, July 19, 2018, July 09, 2018 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on Servotech Power Systems Limited bank facilities will now be denoted as **CARE BB+; Stable;/CARE A4+ ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings takes into account modest scale of operations, raw material price fluctuation risk, highly competitive nature of industry with competition from China along with business risk associated with tender-based orders. The ratings, however, continue draws comfort from experienced promoters, growing scale of operations, moderate profitability margins and moderate capital structure.

Detailed description of the key rating drivers

At the time of last rating on February 09, 2018 the following were the rating weaknesses and strengths (updated from NSE)

Key rating weakness

Modest scale of operations

The scale of operations has remained modest marked by total operating income and gross cash accruals of Rs.114.57 crore and Rs4.79 crore respectively in FY18 (FY refers to April 1 to March 31). The small scale limits the firm's financial flexibility in times of stress and deprives it from scale benefits. In H1FY18 (refer to period April 1 to September 30, based on provisional results), the company has achieved total operating income of ~Rs.34.39 crore.

Exposure to raw material price volatility

In the absence of any backward integration, the company procures its primary raw material which includes metals such as aluminum, copper and overhead material from approved vendors or from open market at market rates and hence, it susceptible to volatility in the input prices. On account of the same, the company is exposed to any volatility in the input prices of raw materials as most of the contracts are not having any price variation clause because mostly of them are of shorter tenure.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

*Issuer did not cooperate; Based on best available information

Highly competitive nature of industry and Business risk associated with tender-based orders

SPL operates in a highly competitive industry wherein there is presence of a large number of players in the organized sectors. Further, there are number of small and regional players catering to the same market which has limited the bargaining power of the company and has exerted pressure on its margins. Additionally, the Indian electric components manufacturer remain faced with stiff competition from low- cost imported products especially from China.

The company majorly undertakes 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.

Key rating strengths
Experienced promoters

The overall operations of the company are being managed by Mr. Arun Handa, Mr. Raman Bhatia and Ms. Sarika Bhatia. Mr. Arun Handa; who has joined as a director in July 2013 has a considerable experience of around three decades in industry through his association with various corporates. He primarily looks after the manufacturing division. He is further assisted by Mr. Raman Bhatia. Further, Ms. Sarika Bhatia looks after the overall marketing operation of SPL.

Growing scale of operations, moderate profitability margins and moderate capital structure

The total operating income (TOI) of the company has grown at a compounded annual growth rate of around 50% during FY16-FY18. For the period FY16-FY18, SPL's total operating income grew from Rs.51.53 crore in FY16 to Rs.114.57 in FY18 crore reflecting a compounded annual growth rate of around 50%.

The company maintains wide variety of product portfolio with varied profitability margins. Furthermore, the margins are also dependent upon nature of order executed. The profitability margins of the company stood moderate marked by PBILDT and PAT margins at 7.35% and 3.45% for FY18. In 6MFY19 PBILDT and PAT margins stood at 11.65% and 7.80% respectively.

The capital structure of the company marked by overall gearing ratio stood at 0.38x as on March 31, 2018 as against 1.57x as on March 31, 2017 on account of repayment of term loan coupled with accretion of profits to reserves. Further, overall gearing ratio stood at 0.40x as on September 30, 2018.

Analytical Approach: Standalone

Applicable Criteria

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

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[CARE's methodology for manufacturing companies](#)

[Financial ratios – Non-Financial Sector](#)

About the company

New Delhi based Servotech Power Systems Limited (SPL) was incorporated as private limited company in September, 2004. Later, the company was converted into public limited company in May, 2017. The company is currently being managed by Mr. Raman Bhatia, Ms. Sarika Bhatia and Mr. Arun Handa. SPL is engaged in the manufacturing of various electrical items such as Light Emitting Diode (LED) lights, solar power products, inverters, stabilizers, batteries and uninterruptible power supply (UPS) systems which find its application for various domestic as well as industrial uses.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)	6MFY19 (Unaudited)
Total operating income	82.17	114.57	34.39
PBILDT	9.46	8.42	3.77
PAT	5.00	3.95	1.92
Overall gearing (times)	1.57	0.38	-
Interest coverage (times)	4.69	-	-

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is 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 CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate		Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-		-	6.26	CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - LT-Bank Guarantees	-	-		-	4.00	CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - ST-Letter of credit	-	-		-	3.50	CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - LT/ ST-BG/LC	-	-		-	4.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - LT/ST-BG/LC	LT/ST	11.50	Suspended	-	-	-	1)Suspended (19-Feb-16)
2.	Fund-based - LT-Term Loan	LT	0.09	Suspended	-	-	-	1)Suspended (19-Feb-16)
3.	Fund-based - LT-Cash Credit	LT	6.26	Suspended	-	-	-	1)Suspended (19-Feb-16)
4.	Fund-based - LT-Cash Credit	LT	6.26	CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE BB+; Stable (16-Feb-18)	-	-
5.	Non-fund-based - LT-Bank Guarantees	LT	4.00	CARE BB+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE BB+; Stable (16-Feb-18)	-	-

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