RATING RATIONALE

10 Dec 2019

Servotech Power Systems Ltd

Brickwork Ratings downgrades the ratings for the Bank Loan Facilities of ₹.17.76 Crores of Servotech Power Systems Ltd ('SPSL' or 'the company')

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (July, 2018)	Present
Fund based	6.26	6.26 (2.74)	Long Term	BWR BBB- (Stable) Assigned	BWR BB+ (Stable) Downgrade
Non Fund Based	4.00	4.00			
	7.50	7.50	Short Term	BWR A3 Assigned	BWR A4+ Downgrade
Total	17.76	17.76	INR Seventeen Crores And Seventy Six Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
** Details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

BWR has downgraded the ratings of **Servotech Power Systems Ltd** to BWR BB+ / A4+. The downgrade of ratings reflects the steep decline in the company's sales in FY19 and H1 FY20. The rating has also factored in the high receivables of the company with respect to overall turnover and the company's exposure to a single PSU client for almost 50% of its revenues.
The rating, however, draws strength from the promoters' extensive experience in the industry and the company's moderate networth and leverage position.
The 'stable' outlook indicates a low likelihood of a rating change in the medium term. BWR expects that the company's performance is likely to be maintained over the next few years.

KEY RATING DRIVERS

Credit Strengths:

- **Experienced promoters:** The directors Mr. Raman Bhatia and Ms. Sarika Bhatia have around two decades of experience in successfully running the company, along with other key personnel who have significant experience in the industry.
- **Comfortable financial risk profile and capital structure:** SPL's tangible Networth

increased to Rs.36.02 Crores as on 31 March 2019 from Rs.33.02 Crores a year ago. The gearing was low at 0.43 times for FY19 and overall gearing (TOL/TNW) was also moderate at 1.10 times for the year. The coverage indicators, ISCR & DSCR, though declined marginally from last year were still moderate and stood at 2.91x & 1.24x respectively for FY2019.

- **Moderate though concentrated order book position:** SPL has unexecuted orders in hand of around Rs.28 Crores form two clients i.e. IOCL and ARD Tamilnadu which are to be executed in the current financial year in addition to another Rs.30 Crores in sales (regular OEM supplies) to other clients. The order book of SPL looks concentrated as majority of its orders come from IOCL and ARD Tamilnadu.
- **Growth & scope of LED lighting & Solar power industry:** The LED lighting has seen a huge growth in its adoption both in the past few years and government has also launched various schemes to boost its usage. The solar power sector has been growing at a good pace in the past few years and now even the residential households are adopting this green source of electricity.

Credit risks:

- **Declined operating income and moderate scale of operations:** The company registered a declined operating income of Rs.88.50 Crores in FY19 (a drop of 22%) which is moderate.
- **Stretched conversion cycle:** The company's conversion cycle stretched to 126 days in FY19 from 81 days in FY18. The high conversion cycle was mainly due to high receivable days of 177 days in FY19.
- **Highly competitive nature of industry and Business risk associated with tender-based orders:** 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. There are a 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 manufacturers remain faced with stiff competition from low- cost imported products, especially from China.
- **Sizeable working capital requirement:** The company normally realizes payment in around 4-8 months due to specific payment terms of tender i.e. after completion of installation, commissioning and submission of satisfactory completion certificate. Operations are moderately working capital intensive, as reflected in Conversion Cycle of 126 days as on March 31, 2019, owing to stretched receivables of over 100 days in the past three fiscals. Working capital management is however, aided by payables of 111 days, provided by suppliers.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone financials of the company. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positive: Growth in company's revenues, improvement in conversion cycle and diversification in customer profile

Negative: Any further decline in operating income, deterioration in operating cycle and delay in bank loan servicing.

LIQUIDITY POSITION : Adequate

The Company's liquidity position is adequate considering its cash accruals and cash outgo on account of debt repayment obligations. The net cash accruals for FY 2019 was Rs.4.04 Crores while the debt repayment (CPLTD) for the year stood at Rs.2.76 Crores.

Cash Conversion cycle of the company increased by 45 days in FY19 to 126 days mainly on account of a sharp increase of 62 days in the receivable days which stood at 177 days.

The company's operations are working capital intensive in nature as the major revenues are generated from tenders of public sector companies and there are delays in clearing of payments from their side. As on 31 March 2019, the company had a total trade receivables of almost Rs.40 Crores out of which Rs.13.61 Crores were more than 6 months old.

The average utilization of the working capital limits was almost 100 % in the last one year which signifies the working capital intensive nature of the company's operations.

COMPANY PROFILE

New Delhi based Servotech Power Systems Limited (SPL) was incorporated as a private limited company in September, 2004. Later, the company was converted into a public limited company in May, 2017. It is listed on "NSE Emerge" an SME Growth platform of National Stock Exchange (NSE). The company is currently being managed by Mr. Raman Bhatia and Ms. Sarika Bhatia. 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. The company has its manufacturing facilities located in Kundli, Haryana. The company had around 164 employees on its payroll as on 31 March 2019. It sells its LED and Solar products under the brand name of "SAARA".

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY19	FY18
Result Type		**Audited**	**Audited**
Operating Income	₹ Crores	88.50	113.62
EBITDA	₹ Crores	6.95	7.48
PAT	₹ Crores	3.00	3.95
Tangible Net worth	₹ Crores	36.02	33.02
Total Debt / Tangible Net worth	Times	0.43	0.51
Current Ratio	Times	2.07	1.70

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : NA

RATING HISTORY

<table>
<tr><th rowspan="2">Instrument / Facilities</th><th colspan="3">Current Rating (Dec 2019)</th><th colspan="3">Rating History</th></tr>
<tr><td>Tenure (Long Term/ Short Term)</td><td>Amount (₹ Cr)</td><td>Rating</td><td>29 July 2019</td><td>27 July 2018</td><td>2016</td></tr>
<tr><td>Fund Based</td><td>Long Term</td><td>6.26 (2.74)</td><td rowspan="2">BWR BB+ (Stable) Downgrade</td><td rowspan="3">Rating Not Reviewed</td><td rowspan="2">BWR BBB- (Stable) Assigned</td><td rowspan="2">NA</td></tr>
<tr><td rowspan="2">Non Fund Based</td><td>Long Term</td><td>4.00</td></tr>
<tr><td>Short Term</td><td>7.50</td><td>BWR A4+ Downgrade</td><td>BWR A3 Assigned</td><td>NA</td></tr>
<tr><td>Total</td><td></td><td>17.76</td><td colspan="5">INR Seventeen Crores And Seventy Six Lakhs Only</td></tr>
</table>

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Manufacturing Companies

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Servotech Power Systems Ltd

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	United Bank of India	Cash Credit (Main limit)	6.26	--	6.26
2		Cash Credit (sub limit of BG)	(2.74)	--	(2.74)
3		Bank Guarantee	4.00	--	4.00
4		Letter of Credit (ILC/FLC)	--	7.50	7.50
		TOTAL			17.76

Total Rupees Seventeen Crores And Seventy Six Lakhs only.

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