Rating Rationale

2 Dec 2020

Statcon Energiaa Pvt. Ltd.

Brickwork Ratings downgrades the ratings with a revision in outlook to Stable for the Bank Loan Facilities of ₹. 55 Crores of Statcon Energiaa Pvt. Ltd.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating ^	
	Previous	Present		Previous (Nov 2019)	Present
Fund based	30.00*	30.00*	Long Term	BWR BBB- (Negative)	BWR BB+ (Stable) Downgraded
Non-Fund Based	25.00	25.00	Short Term	BWR A3	BWR A4+ Downgraded
Total	55.00	55.00	Rupees Fifty Five Crores Only		

**Includes Rs.5Crs of Proposed loan..*

^Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

Complete details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

The downgrade in the ratings of Statcon Energiaa Pvt. Ltd (SEPL or the company) factors in the consistent decline in its operating revenues and profits over the past two years, with a substantial decline of 33.49% in revenues in FY20, owing to disruptions in imports of key electronic components, coupled with continued high inventory holding positions, besides an elongated conversion cycle and a high overall gearing ratio.

The ratings, inter alia, also factor in the improved profit margins of the company in FY20, promoter's extensive business experience in the power control equipment manufacturing sector with a diversified clientele base, besides long-standing relationships with the state and central government agencies like GAIL, Indian Railways, etc, apart from deriving comfort in the current order book position of Rs.48Crs on hand, which provides medium-term revenue visibility.

Rating Outlook: Stable: BWR believes that SEPL's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium time. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

Covid Impact: The company had availed moratorium under COVID -19 relief measures up to Aug 2020, with the accumulated interest component being converted into FITL of Rs.0.66 Crs to be repaid till Mar 2021. On the operational front, the company has faced supply chain disruptions as more than 40% of the raw material and electric components are imported from Wuhan, China. However with the ease in imports and unlocking of the supply chain, the company is gradualy resuming normalcy.

Key Rating Drivers

Credit Strengths:

- **Experienced promoters:** SEPL's promoters have been engaged in the business of the manufacturing of electrical power control equipment for the past three decades. The top management at SEPL is ably supported by a qualified and professional senior management team having adequate experience in the industry to manage other functions of the company.

- **Established relationships and diversified clientele base:** The company is a preferred supplier for industry majors viz. L&T, Schneider Electric, Vikram Solar, ABB India, PGCI, IOCL amongst others. SEPL offers products and services to major sectors viz. solar, power, defence, and railways. Due to established relationships with its clients, the company has been able to fetch repetitive orders. The company has a revenue contribution of more than 50% from the GOI and its entities.

- **Improved Profit margins:** The OPM has improved to 9.63% in FY20 vis-a-vis 7.04% in FY19 on account of reduction in employee costs and decline in revenue from traded goods, thereby increasing the margins of the company in FY20. Further, due to the company's strategic move to shift all its operations under one roof, it has reduced its operating expenses from FY18 onwards.

- **Debt Protection metric:** Considering that the facilities availed are primarily working capital limits, the interest servicing capabilities as indicated by ISCR of the company continues to remain moderate with ISCR at 1.47x in FY20.

Credit Risks:

- **A consistent decline in Total Operating Income:** The operating revenues of the company witnessed a consistent decline post FY18, and has registered a negative CAGR of 19.65% for the year FY18~20. In FY20 the revenues declined by 33.49%, and the same stood at Rs.65.61Crs against Rs.98.65Crs in FY19. The steep decline in FY20 was on account of external factors viz supply chain disruptions due to the COVID 19 pandemic in Wuhan, China, from where the company procures its raw material. In FY19, the decline was owing to delayed, deferred or cancelled orders due to certain technical reasons. Further, during the later part of FY19, expected tenders were put on hold due to the general elections held in May19.

- **Stretched Conversion Cycle:** The Gross Current Asset days of the company have substantially increased to 426 days in FY20 from 264 days in FY19 coupled with an elongated overall conversion cycle of the company at 277 days in FY20 from 130 days in FY19. The increase is on high inventory holding days of 286 days in FY20 as against 147 days in FY 19 on account of supply chain disruptions of key imported components from China, due to which the company could not complete the assembly of finished goods and dispatch to clients, resulting in piled up inventory of components / raw material required to complete the assembly. Further, owing to sudden lockdown, the finished goods could not be despatched, with a resultant increase in the holding position and days of the inventory. The stretched position of the company is likely to impact the liquidity of the company in the near future.

- **High Gearing:** The overall gearing viz TOL/TNW ratio continues to remain high at 2.15x in FY20 (PY:2.12x) owing to high short term borrowings to sustain a high levels of inventory.

Analytical Approach

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

Rating Sensitivities

Positive: BWR may revise the ratings upward, in case the scale of operations improved by at least 50% over the current scale of Rs.65.61Crs in FY20 and generating stable net profit margins of at least 2%. Coupled with, a decline in overall gearing of the company below 2x, with other metrics, also favouring an upgrade.

Negative: BWR may revise the ratings downwards if the company's ISCR and EBITDA falls to below the current level of 4.42x and 16.59Crs respectively in FY20, and overall gearing deteriorates to more than 2.25 coupled with any further increase in the conversion cycle of the company.

Liquidity: Adequate.

The liquidity as indicated by current ratio is adequate at 1.31x in FY20. The year-round utilization of the company's working capital facilities is around 95%. The company has been generating average EBITDA of Rs.6.07Crs for the years FY 17-19 sufficient enough to service the average interest cost of Rs.3.71Crs for the same period. Since SEPL has not planned for any debt-funded capital expenditure, its liquidity profile is likely to remain adequate with earnings from operations and healthy cash reserves.

About the Company

The company was incorporated in 1991 as Triport Electronics Pvt Ltd (TEPL) for manufacturing/assembling of solar charger controller, AV soft starter, variable speed AC drives control panel, motor control centre, uninterrupted power supply units, transformers, and battery chargers. The company was a 100% subsidiary company of Statcon Power Controls Ltd. In 2014 the name changed from TEPL to SEPL. Further in 2017, Statcon Power Controls Ltd and SEPL have gone through a demerger process and are now operating as separate entities in the same field of operations. SEPL 's assembly unit is based in Noida, UP. Directors of the company are Mr Manoj Pande, Mrs Sunita Pande, Mr Anil Dhar, and Mr Budhi Behari Pande.

Company's Financial Performance

Key Financials (Rs. Crs)			
		FY 19	**FY 20**
Result Type	**Units**	ABS	ABS
Total Operating Income	Rs.Crs	98.65	65.61
OPBDIT	Rs.Crs	6.95	6.32
PAT	Rs.Crs	1.39	1.12
Tangible Net Worth	Rs.Crs	28.47	29.59
TOL/TNW	Times	2.12	2.15
Current Ratio	Times	1.34	1.31

Rating History for the last three years (including withdrawn/suspended)

Facilities Availed	**Current Rating (2020)**	**Rating History for the past 3 years (Amount in Rs. Crores)**		
		Nov 2019	**Aug 2018**	**2017**
Bank Loan Rating	FB 30.00 BWR BB+ Stable NFB 25.00 BWR A4+	FB 30.00 BWR BBB- Negative NFB 25.00 BWR A3	FB 18.00 BWR BBB- Stable NFB 22.50 BWR A3	

Status of non-cooperation with previous CRA (if applicable)-ACUITE BB/A4+ under Issuer non-cooperation for a debt size of Rs.52Crs as on 08 Oct 2020.

Any other information: Not Applicable
Hyperlink/Reference to Applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**

- [Rating Criteria - Manufacturing Sector]
- [Short Term Debt]

r any other criteria obtain hyperlinks from the website

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Statcon Energiaa Pvt. 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	SBI	CC*	23.00*	-	23.00*
2		BG	-	16.00	16.00
3		LC	-	5.50	5.50
1	Axis Bank	BG		3.00	3.00
3		CC	7.00	-	7.00
3		ILC/FLC (Sub Limit of BG)		(3.00)	(3.00)
4		LC		0.50	0.50
TOTAL					55.00

**Includes Rs.5Crs of Proposed loan..*
Total :Rupees Fifty Five Crores Only.

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