

## Rating Report (Annual Review)

### Brickwork Ratings assigns/reaffirms 'BWR BBB' & 'BWR A3' for Bank Loan Facilities aggregating ₹ 99.30 Cr of A K Power Industries Pvt. Ltd.

On an annual review, Brickwork Ratings (BWR) has assigned the following **Ratings**<sup>1</sup> for Bank Loan Facilities of A K Power Industries Private Limited (*AKPIPL* or '*the Company*')

Facility	Existing (₹ Cr)	Enhanced (₹ Cr)	Tenure	Rating
Term Loan	7.00	16.80	Long Term	<b>BWR BBB</b> <b>(BWR Triple B)</b>  <b>(Outlook: Stable)</b>  (Upgraded from BWR BBB- BWR Triple B Minus)
Fund Based (working Capital)	43.00	67.30		
Non Fund Based (working Capital)	12.00	15.20	Short Term	<b>BWR A3</b> (BWR A Three)  (Reaffirmed)
<b>Total</b>	62.00	<b>99.30</b>	<b>(INR Ninety Nine Crores &amp; Thirty Lakhs only)</b>	

Previous Rating: BWR BBB-/ A3 in February, 2013

Details of the bank facilities is as per Annexure-III

BWR has principally relied upon the financial performance of the Company up to FY14, publicly available information & information/clarifications provided by the company's management & feedback received from Banks.

The rating has factored, inter alia, the experience of the promoters, the performance of the company, reputed client base, growing order book, low gearing level and moderate debt protection metrics and infusion of additional equity into the business by the promoters. The rating is, however, constrained by the low profit margins, stretched cash conversion cycle and Company's dependence on the Power and Infrastructure sectors and the typical risks attached with those sectors.

#### Background:

A K Power Industries Private Limited (AKPIPL), formerly known as A K industries, was incorporated as a private limited company on 12<sup>th</sup> Nov 2008. A K Industries, a proprietorship firm, was set up in 1991 by Mrs. Archana Mallick. AKPIPL is manufacturing Tower structures, various hardware and accessories for transmission, Substation and distribution lines for more than 20 years. The Company has been serving as approved vendors for various State Electricity Boards like WBSETCL, GETCO, OPTCL, APTRANSCO etc. in India. The manufacturing facilities of the company are located at Howrah, West Bengal.

<sup>1</sup> Please refer to [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the Ratings

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### **Management Profile:**

Majority of AKPIPL Shareholding is held by Mrs. Archana Mallick and her son Mr. Ayan Mallick. Mrs. Archana Mallick holds 25.63% and Mr. Ayan Mallick holds 60.30%. The rest of 14.07 % is held by Trans Hardware Alloy Casting Private Limited which is in the business of manufacturing and engineering Product.

Mr. Ayan Mallick, is the Managing Director of AKPIPL, and actively involved in day to day business Operations of the Company. The Company has a qualified work force with substantial experience in the sector.

### **Company's Business:**

A K Power Industries Private Limited is a manufacturer and supplier of Electrical Overhead Equipment and various Hardware Fittings. It serves as the Main Role Project suppliers of Transmission, Substation and distribution lines. The company has been operating with 6 manufacturing units located in Howrah with total installed capacity of 30,000 MTPA. It undertook expansion of the facilities at Unit-6 in Howrah in the form of a new fabrication unit with installed capacity of 36,000 MTPA and a new galvanizing unit with installed capacity of 34,950 MTPA. The fabrication unit started its commercial production in February 2013 and the galvanizing unit in December 2013. All the plant & equipment have been installed as per capacity except CNC Automatic Production line and Goliath Crane. The installation of the structural portion of the CNC Automatic Production Line equipment is in progress.

The company has both government and non-government clients with a contribution of 30% and 70% of the total sales respectively.

### **Financial Performance:**

As per the audited financial statements for FY13, the Company reported an Operating Income of ` 156.03 Crores with a Net profit of ` 1.66 Crores against an Operating Income of ` 118.88 Crores and Net profit of ` 1.27 Crores for FY12. The Net Profit Margin remained at the same level as in FY12 at 1.07%. Tangible Net worth of the Company increased from ` 29.64 Cr in FY12 to ` 48.86 Cr in FY13 majorly due to infusion of equity of ` 17.55 Crores by the Promoter in FY13. Debt-to-Equity is at moderate level at 1.04 times and Current Ratio is at a healthy level of 1.40 times in FY13. The external debt has increased in FY13 compared to FY12 due to both long term and short term borrowings. The receivable period and inventory period has improved in FY14 compared to that in FY12 and FY13 leading to improvement in cash conversion cycle. The Company has been servicing the borrowings as per schedule and the credit facilities provided by Banks have been considered performing and standard assets.

As per provisional results up to 31<sup>st</sup> March 2014, the company has reported Total Operating Income of ` 238.11 crores.

*Key performance /financial indicators have been shown in the Annexures I & II.*

## Key Rating Determinants:

**Management/promoter Experience:** The extensive industry experience of the promoters and the management ensures the long term sustainability and stability of the business.

**Reputed Clients:** The relationship that the company has built up with reputed clients like Larsen & Toubro, BHEL, etc. ascertain the quality of its work and also the trust among the clients. The present order book also highlights the inflow of business from them.

**Financial Risk:** AKPIPL has recently undertaken capacity expansion and has funded the projects with external long term borrowings and its internal accrual and promoter's capital. It has increased the gearing level from 0.68 in FY12 to 1.47 in FY14 (Provisional). However, the sales and profit generated from these new projects has enabled the company in maintaining the debt protection parameters viz. DSCR and ISCR. The operating margin of the company has increased over the last three financial years with increase in sales but the net profit margin continues to remain low. The Company's business has the characteristics of stretched cash conversion cycle because of high levels of receivables and inventory.

**Industry risk:** The power sector is highly regulated and the power conductor units are affected by low margins, competition and high receivables. AKPIPL is exposed to the typical risks of the Industry.

## Rating Outlook:

The Company is expected to continue to show improving performance over the next one year. The rating is however, sensitive to the audited results of the Company for FY14 being in line with the provisional results shared with us. The Company's ability to effectively manage input costs, improve margins and manage its working capital efficiently would be crucial to its performance and are also the key rating sensitivities.

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A K Power Industries Pvt. Ltd.

**Annexure-I: Balance Sheet**

<b>Liabilities (₹ Cr)</b>	<b>FY 2011 (A)</b>	<b>FY 2012 (A)</b>	<b>FY 2013 (A)</b>
<b>EQUITY AND RESERVES</b>	<b>20.37</b>	<b>29.64</b>	<b>48.86</b>
Share capital	12.58	22.88	28.43
Share Application money Pending allotment	6.30	4.00	16.00
Reserves and Surplus	1.49	2.76	4.43
<b>Non-current liabilities</b>	<b>0.17</b>	<b>0.26</b>	<b>7.06</b>
Long-Term Borrowings	0.16	0.24	6.63
Deferred tax Liabilities (Net)	0.01	0.02	0.43
<b>Current liabilities</b>	<b>49.77</b>	<b>53.86</b>	<b>81.79</b>
Short-Term Borrowings	12.33	19.62	43.22
Current Portion Of Long Term Debt	0.12	0.17	0.90
Trade Payables	36.45	28.28	27.84
Other Current Liabilities	0.59	5.43	9.54
Short-Term Provisions	0.28	0.36	0.29
<b>Total Liabilities</b>	<b>70.31</b>	<b>83.76</b>	<b>137.71</b>
<b>Assets (₹ Cr)</b>	<b>FY 2011 (A)</b>	<b>FY 2012 (A)</b>	<b>FY 2013 (A)</b>
<b>Non-current assets</b>	<b>3.36</b>	<b>7.08</b>	<b>23.35</b>
Net Fixed assets	1.96	2.64	19.14
Capital Work-In-Progress	0.10	2.35	0.93
Long Term Loans and Advances	1.30	2.09	3.28
<b>Current assets</b>	<b>66.95</b>	<b>76.68</b>	<b>114.36</b>
Current Investments	0.65	-	-
Inventories	22.78	31.95	42.02
Trade Receivables > Six Months	2.41	3.15	3.22
Trade Receivables < Six Months	34.59	34.36	60.24
Cash and Cash Equivalentents	3.10	2.79	3.18
Short-Term Loans and Advances	3.36	0.25	0.76
Other Current Assets	-	4.18	4.94
Miscellaneous Expenditure To the Extent Not Written off(Current)	0.06	-	-
<b>Total Assets</b>	<b>70.31</b>	<b>83.76</b>	<b>137.71</b>

A K Power Industries Pvt. Ltd.

**Annexure II: Profit & Loss Statement**

<b>P &amp; L Summary (₹ Cr)</b>	<b>FY 2011 (A)</b>	<b>FY 2012 (A)</b>	<b>FY 2013 (A)</b>
Gross Sales	76.91	53.82	109.92
Traded Goods Sales	22.40	56.59	39.48
Excise Duty/Sales Tax	7.11	5.70	13.22
<b>Net Sales</b>	<b>92.20</b>	<b>104.71</b>	<b>136.18</b>
Other Operating Income	2.71	14.17	19.85
<b>Total Operating Income</b>	<b>94.91</b>	<b>118.88</b>	<b>156.03</b>
<b>Operating Expenses</b>	<b>91.36</b>	<b>113.47</b>	<b>147.91</b>
<b>OPBDIT</b>	<b>3.55</b>	<b>5.41</b>	<b>8.12</b>
Depreciation/Amortization/Impairment	0.31	0.48	0.66
<b>OPBIT</b>	<b>3.24</b>	<b>4.93</b>	<b>7.46</b>
Interest and Finance Charges	1.90	3.16	5.12
<b>OPBT</b>	<b>1.34</b>	<b>1.77</b>	<b>2.34</b>
Non-Operating Income(Expenses)	0.04	0.13	0.23
<b>PBT</b>	<b>1.38</b>	<b>1.90</b>	<b>2.57</b>
Extraordinary/Prior Period - Income(Expense)	0.12	-	0.12
Provision for Taxes	0.51	0.63	1.03
PAT(Continuing Operations)	0.99	1.27	1.66
<b>PAT</b>	<b>0.99</b>	<b>1.27</b>	<b>1.66</b>

**Annexure III: Details of the Bank Facilities rated**

	<b>Facilities</b>	<b>(₹ Cr)</b>		
<b>A</b>	<b>Fund Based Limit</b>	<b>State Bank of India</b>	<b>Allahabad Bank</b>	<b>Total</b>
a	Cash Credit (Stocks)	32.00	29.0	61.00
	Cash Credit (Book Debts)	(10.00)		
	SLC	3.00	3.30	6.30
b	Term Loan	9.80	7.00	16.80
	Total Fund Based Limits	44.80	39.30	84.10
<b>B</b>	<b>Non- Fund Based Limits</b>			
a	Letter of Credit (LC)	7.00	1.00	8.00
b	Bank Guarantee (BG)	3.00	4.00	7.00
c	Forward Contract	0.20		0.20
	Total Non-Fund Based Limits	10.20	5.00	15.20
	<b>Total Limits</b>	<b>55.00</b>	<b>44.30</b>	<b>99.30</b>