

September 28, 2023

## Power Research and Development Consultants Private Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund Based - Cash Credit	7.00	7.00	[ICRA]B+ (Stable); reaffirmed
Long term - Non-fund based	5.50	5.50	[ICRA]B+ (Stable); reaffirmed
<b>Total</b>	<b>12.50</b>	<b>12.50</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation of Power Research and Development Consultants Private Limited (PRDC) continues to factor in the company's stretched liquidity position owing to stretched receivables and high debt servicing obligations. PRDC's elevated working capital intensity has resulted in fully utilised working capital limits. This, along with the company's weak debt coverage metrics, as reflected by Debt Service Coverage Ratio (DSCR) of 1.12 times in FY2023 and 0.96 times in FY2022, constrains PRDC's rating. The rating is also tempered by the company's high sectoral concentration with the major portion of its revenues derived from the power system domain. ICRA notes that small scale of operations exposes the company to the risks associated with a prolonged industry downturn. ICRA notes that the company's revenues are yet to touch the pre-Covid level as the pandemic has adversely impacted PRDC's performance in the past three financial years (FY2021 to FY2023), leading to a slowdown in order execution and a build-up of receivables.

The rating, however, continues to derive comfort from the extensive experience of its promoters in the power systems design and consulting segment. The rating also factors in the potential revenue growth in the software development segment, supported by the company's ability to develop indigenous products at competitive pricing. This rating favourably considers PRDC's reputed customer base, including government entities, which reduces its counterparty credit risk. The rating also considers the company's modest order book position of ~Rs. 33.3 crore as on March 31, 2023, providing revenue visibility for the next twelve months. After the interim low of FY2022, the company's operating revenues gradually started improving in FY2023 and touched Rs. 25.47 crore against Rs. 22.09 crore in FY2022, thus exhibiting a year-on-year (YoY) growth of 15%. ICRA expects this trend to continue with better order visibility, faster project execution, and greater focus on collection of overdue receivables.

The Stable outlook on the long-term rating reflects ICRA's opinion that PRDC will continue to benefit from the extensive experience of its promoters in the power systems design and consulting segment along with better order visibility in the future.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters** – PRDC's Managing Director, Dr. R. Nagaraja, has an extensive experience of over two decades in the power systems industry. The extensive industry knowledge of the promoters and the proven operational track record of PRDC enabled the company in establishing strong relationships with key customers and suppliers. The rating takes comfort from the company's high level of competency in the field of power consultancy and its continuous research towards new product development, beneficial largely to power utility companies.

**Comfortable order book position provides revenue visibility for next 12 months** – After the interim low of FY2022, the company's operating revenues gradually started improving in FY2023 and touched Rs. 25.47 crore against Rs. 22.09 crore in

FY2022, thus exhibiting a YoY growth of 15%. ICRA expects this trend to continue with better order visibility, faster project execution, and greater focus on collection of overdue receivables. Also, the order inflows picked up gradually, with the company having an order book of Rs. 33.3 crore as on March 31, 2023, providing reasonable revenue visibility in the next 12 months. PRDC is further expecting sizeable orders in software development and system study in FY2024.

**Reputed customer base** – The customers of PRDC are government-owned power utility companies like North Eastern Regional Power Committee, Odisha Power Transmission Corporation Limited, Karnataka Power Transmission Corporation Limited (KPTCL), Bangalore Electricity Supply Company Limited (BESCOM) etc., which reduce the counterparty credit risk, as evident from its low bad debt in the previous years. This apart, the company has been consistently adding new customers to reduce the concentration risk. The company is looking to increasingly collect advances from customers to ease the pressure on working capital.

**Company's ability to develop indigenous software products at competitive prices can support scaling up of business, going forward** – PRDC's indigenously developed software like Mi AFASTM enables its customers to carry out simulation studies on relay setting calculations and design appropriate protection systems to identify default in the process flow of power grid within 1.5 to 2 minutes against the conventional process of identifying in 15-16 days. This software has been supplied by PRDC in the domestic market to reputed customers like Adani Power Limited (Rajasthan), Reliance Power Limited (Maharashtra) and IndiGrid (Odisha). The Dynamic Security Assessment is also an in-house developed solution by PRDC, which has the potential to become a key growth driver over the medium term. DISCOM Renewable Energy Procurement Optimization and Smart Estimation (REPOSE) is another software developed by PRDC for demand forecasting, integrated resource mapping (IRM) and cost optimisation. The company is also venturing into developing software for mapping of EV stations to help the end-user identify EV stations in the nearby location, which are less loaded, thus opening new revenue growth opportunities in the future.

### Credit challenges

**Modest capital structure and weak debt coverage indicators** – PRDC's capital structure remained modest with total debt to TNW<sup>1</sup> of 1.23 times as on March 31, 2022, which further deteriorated to 1.84 times as on March 31, 2023 because of increased long-term borrowings. The debt coverage indicators remained weak with DSCR of 1.12 times and an elevated leverage with Total Debt/OPBITDA of 4.84 times in FY2023.

**Stretched receivables leading to elevated working capital intensity** – PRDC's customer profile mainly comprises state utilities and other government clients because of which the receivables cycle remains stretched and leads to high working capital intensive nature of operations. Given the milestone-based contracts, PRDC's unbilled revenue also remains elevated, increasing the working capital intensity, and leading to weak free cash flow generation.

**High sectoral concentration** – Large exposure of the company's revenues to the power systems domain leads to significant sectoral concentration risk. However, new softwares like Dynamic Security Assessment and Discom REPOSE remain a key focus area of growth for the company, which would reduce the sectoral concentration risk to an extent.

**Small scale of operations exposes the company to risks associated with a prolonged industry downtrend** – Small scale of the company's operations makes it more vulnerable to the risk of a prolonged industry downtrend. ICRA notes that the revenue of the company is yet to touch the pre-Covid level as the pandemic has adversely impacted PRDC's performance in the past three financial years (FY2021 to FY2023), leading to a slower pace of order execution and a build-up of receivables.

---

<sup>1</sup> Tangible Net Worth

## Liquidity position: Stretched

PRDC's liquidity remained stretched with low free cash balance of Rs. 0.14 crore as on March 31, 2023. PRDC's retained cash flows slipped to the negative territory in FY2023 due to a build-up of working capital, leading to dependence on additional borrowings for meeting capex commitments and scheduled repayments. The company's cash credit (CC) limits of Rs. 11.00 crore were almost fully utilised in the last 12 months and ad-hoc limits were availed during some months to support the working capital requirements. The company has taken term loans from various banks and NBFCs with a tenure ranging from two to three years, entailing high repayment obligation in the next two years. This would continue to strain the liquidity position, unless the profits and free cash flows meaningfully increase from the prevailing levels.

## Rating sensitivities

**Positive factors** – ICRA may upgrade PRDC's rating if the company improves its order book position, resulting in a substantial growth in revenue and profitability along with an improvement in the working capital intensity and liquidity. Specific credit metrics that could lead to a rating upgrade include an interest coverage of more than 2 times on a sustained basis.

**Negative factors** – Pressure on PRDC's rating could arise if there is a significant decline in revenues and profitability or a further decline in its liquidity position.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements.

## About the company

Established in 1994 and promoted by Dr. R Nagaraja, PRDC is involved in power systems consultancy services. PRDC also develops software for power network design and analysis in the name of MiPower, Mi AFAS, Mi DS<sup>2</sup> etc. PRDC further provides automation and power system solutions, wherein the company designs the embedded systems as per customers' requirements, while the manufacturing process is outsourced. The company carries out projects for state electricity boards and utilities, independent power producers and companies in other industries such as cement, steel and sugar. It has also been recognised by the Visvesvaraya Technological University as an affiliated research centre, which allows PRDC to provide training to power engineers working in state/regional electricity boards, generation, transmission and distribution companies, among others.

## Key financial indicators (audited/provisional)

PRDC Standalone	FY2021	FY2022	FY2023*
Operating income	23.1	22.1	25.5
PAT	0.6	1.0	0.3
OPBDIT/OI	16.4%	18.2%	20.3%
PAT/OI	2.5%	4.5%	1.1%
Total outside liabilities/Tangible net worth (times)	2.3	2.5	3.2
Total debt/OPBDIT (times)	4.1	4.6	4.8
Interest coverage (times)	1.8	2.3	1.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; \* Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument			Current rating (FY2024)			Chronology of rating history for the past 3 years			
			Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
						Sept 28, 2023	July 29, 2022	May 31, 2021	-
1	Fund Based-Cash Credit	Long Term	7.00	10.53	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	
2	Non-fund based-Bank Guarantee	Long Term	5.50	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund Based-Cash Credit	Simple
Long Term -Non-fund based – Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term- Fund Based- Cash Credit	-	-	-	7.00	[ICRA]B+ (Stable)
NA	Long Term- Non-fund Based -Bank Guarantee	-	-	-	5.50	[ICRA]B+ (Stable)

Source: Company

#### Annexure II: List of entities considered for consolidated analysis – Not Applicable

## ANALYST CONTACTS

**Jayanta Roy**

+91 33-71501100

[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

**Ritabrata Ghosh**

+91 33-61143438

[ritabrata.ghosh@icraindia.com](mailto:ritabrata.ghosh@icraindia.com)

**Priyesh Ruparelia**

+91 22-61693328

[priyesh.ruparelia@icraindia.com](mailto:priyesh.ruparelia@icraindia.com)

**Ayushi Mittal**

+91 80-4332 6417

[ayushi.mittal@icraindia.com](mailto:ayushi.mittal@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.