

Gupta Power Infrastructure Limited

October 22, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loan	48.65	48.65	[ICRA]BBB+(Stable); ISSUER NOT COOPERATING [#] ; revised from [ICRA]A-(Stable) and moved to 'Issuer Not Cooperating' category
Fund-based - Working Capital Facilities	810.0	810.0	[ICRA]BBB+(Stable); ISSUER NOT COOPERATING [#] ; revised from [ICRA]A-(Stable) and moved to 'Issuer Not Cooperating' category
Non-fund Based - Working Capital Facilities	1730.0	1730.0	[ICRA]A2; ISSUER NOT COOPERATING [#] ; revised from [ICRA]A2+ and moved to 'Issuer Not Cooperating' category
Unallocated Bank Limits	360.0	360.0	[ICRA]BBB+(Stable)/[ICRA]A2; ISSUER NOT COOPERATING [#] ; revised from [ICRA]A-(Stable)/[ICRA]A2+ and moved to 'Issuer Not Cooperating' category
Total	2,948.65	2,948.65	

*Instrument details are provided in Annexure-1

[#] Issuer did not co-operate

Rating action

ICRA has downgraded the long-term rating to [ICRA]BBB+ (pronounced ICRA triple B plus) from [ICRA]A- (pronounced ICRA A minus) and the short-term rating to [ICRA]A2 (pronounced ICRA A two) from [ICRA]A2+ (pronounced ICRA A two plus) for the Rs. 2,948.65-crore¹ bank lines of Gupta Power Infrastructure Limited (GPIL)². The outlook on the long-term rating is Stable. Further the ratings have been moved to the 'Issuer Not Cooperating' category. The ratings are now denoted as [ICRA]BBB+(Stable)/[ICRA]A2 ISSUER NOT COOPERATING.

The rating is based on the limited cooperation from the entity since the time it was last rated in July 2017. As part of its process and in accordance with its rating agreement with Gupta Power Infrastructure Limited, ICRA has been sending repeated reminders to the entity for payment of surveillance fee that became due. Despite multiple requests by ICRA, the entity's management has remained non-cooperative. In the absence of the requisite cooperation and in line with SEBI's Circular No. SEBI/HO/MIRSD4/CIR/2016/119, dated November 1, 2016, the company's rating has been moved to the "Issuer Not Cooperating" category.

Rationale

The rating revision factors in the steady deterioration in GPIL's operating profitability to 5.3% in FY2018 from 6.7% in FY2014, mainly owing to intense competition in the aluminium cables and conductors industry, amid a constant focus on improving sales. The wires and cables industry is intensely competitive, given the relatively low entry barriers and the presence of numerous players of various scales. This, along with the commoditised nature of the products, has resulted

¹100 lakh = 1 crore = 10 million

²For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

in moderate profitability. Further, the profitability remains exposed to the volatility in raw material prices. The ratings also consider the working capital intensive nature of operations as demonstrated by the consistently high utilisation of working capital limits, leading to high reliance on working capital borrowings. This keeps the debt levels elevated, which coupled with moderate profitability metrics resulted in weak debt coverage indicators as evidenced by debt/OPBDITA of 4.27 times, interest coverage of 1.83 times, and NCA/debt of 9% as on March 31, 2018. Further, moderate profitability levels, the relatively high working capital intensity and steady capex over the years reflect the company's weak cash flow position, thus increasing its dependence on external funding.

The ratings, however, continue to derive comfort from GPIL's experienced promoters, its long track record of operations, its well-entrenched market position in the cables and conductors' industry, its wide geographical presence which helps it to cater to demand across India, and its established relationships with reputed clientele like Power Grid Corporation of India Limited (PGCIL), KEC International Limited (KEC), Odisha Power Transmission Company Limited (OPTCL) etc. The ratings also factor in the continued growth in GPIL's operating income (OI) and its healthy order book position (~Rs. 2,880 crore as on August 31, 2018) which provides adequate revenue visibility for the medium term. Further, ICRA notes that the company has limited debt-funded capex plans going forward, which is likely to keep the long-term debt levels range bound.

Going forward, the company's ability to maintain the sales growth momentum, improve profitability, as well as limit the receivable and debt levels would remain the key rating sensitivities.

Outlook: Stable

ICRA believes that GPIL will continue to steadily grow its OI driven by the increase in volumes in the cable business and consistent growth in the EPC business. The outlook may be revised to Positive if a sustained improvement in profitability, along with better working capital management, strengthens the financial risk profile. The outlook may be revised to a Negative if cash accrual is lower than expected, or if there is any major capital expenditure, or a stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of promoters in cables and conductors industry - Incorporated in 1961, the company has a track record of over five decades of operations in the cables and conductors industry. This has enabled it to establish strong relationships with reputed customers such as PGCIL, KEC and OPTCL.

Diversified product mix - Over the years, GPIL has developed capabilities to manufacture a wide range of conductors across various voltage ranges, along with house wires and aluminium wires. Besides, the company is engaged in engineering, procurement and construction (EPC) work in the power distribution space.

Healthy order book - GPIL's order book as of August 2018 stood at around Rs. 2,880 crore, which included pending orders worth Rs. 980 crore for the EPC division. This provides adequate revenue visibility for the medium term.

Diversified manufacturing base - The company's manufacturing facilities are located in Odisha (in East India), Chennai (in South India) and Kashipur (in North India). Thus, the company has almost a pan-India presence as far as manufacturing facilities are concerned.

Consistent growth in OI - The company's OI grew at a healthy CAGR of around 16% over the last five years, though the growth slowed down in FY2018 due to issues related to the implementation of Goods & Service Tax (GST).

Credit challenges

Consistent decline in operating margins – The operating margins have consistently deteriorated over the last few years to 5.3% in FY2018 from 6.7% in FY2014. Focus on revenue growth amid intense competition in the conductors industry kept the margins under pressure.

Relatively high working capital intensity due to stretched receivables period - The receivable cycle for the company remained high, mainly due to a stretched payment cycle in the EPC division. This resulted in a relatively high working capital intensity of 27% as on March 31, 2018.

Elevated debt levels and moderate profitability put pressure on coverage indicators - The relatively high working capital intensity and weak cash flow position resulted in an increased reliance on external debt, which kept the debt level high. The high debt, coupled with moderate profitability resulted in weak coverage indicators as reflected by debt/OPBDITA of 4.27 times, interest coverage of 1.83 times, and NCA/debt of 9% as on March 31, 2018.

Exposure to raw material price movements - GPIL remains vulnerable to adverse movements in raw material prices. However, the low raw material holding period and some ability to pass on the raw material price change, limits the risk.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Incorporated in 1961, GPIL is involved in manufacturing aluminium and alloy conductors, wires and cables at its facilities in Chennai, Khurda (Odisha) and Kashipur (Uttarakhand). The company is promoted by the Odisha-based Gupta family. Its product portfolio consists of high-tension and low-tension power cables, control cables, instrumentation and signal cables, aerial bunched cables, industrial cables, as well as aluminium, aluminium-alloy, and aluminium-steel reinforced conductors. GPIL's clients include PGCIL, KEC International Ltd., OPTCL, and other state-utility companies.

In FY2018, the company reported a net profit of Rs. 55.5 crore on an OI of Rs. 3,284.9 crore compared with the net profit of Rs. 54.7 crore on an OI of Rs. 3,112.4 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	3112.4	3284.9
PAT (Rs. crore)	54.7	55.5
OPBDIT/OI (%)	5.3%	5.3%
RoCE (%)	13.9%	14.0%
Total Debt/TNW (times)	1.70	1.51
Total Debt/OPBDIT (times)	4.62	4.27
Interest Coverage (times)	1.85	1.83

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Mar 2018) (Rs. crore)	Date & Rating October 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					Jul 2017	June 2016	April 2015
1	Term Loan	48.65	33.9	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Cash Credit	810.0	-	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Letter of Credit & Bank Guarantee	1730.0	-	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Unallocated Limits	360.0	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2013- FY2016	-	FY2019- FY2021	48.65	[ICRA]BBB+ (Stable)
NA	Fund-based CC	NA	NA	NA	810.0	[ICRA]BBB+ (Stable)
NA	Non-fund Based Limits	NA	NA	NA	1730.0	[ICRA]A2
NA	Unallocated Limits	NA	NA	NA	360.0	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: Gupta Power Infrastructure Limited

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