

Coral Engineering Works India Private Limited

January 09, 2023

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	26.22	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Total Bank Facilities	26.22 (₹ Twenty-Six Crore and Twenty-Two Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Coral Engineering Works India Private Limited (CEW) is primarily constrained by nascent stage of operations, low net-worth base and margins exposed to raw material price volatility. The rating also takes note of proposed debt funded capex for expansion of its facilities.

The rating, however, derives benefits from qualified and experienced promoters and established clientele base.

Rating sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Scaling up of operations marked by total operating income above ₹ 50 crore while maintaining stable PBILDT margins.
- Consistent improvement in capital structure

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Not achieving the cash flow as envisaged and impact in liquidity position.
- Any major time or cost overrun in the ongoing capex

Detailed description of the key rating drivers

Key Rating Weaknesses

Nascent stage of operations: CEW has set up its manufacturing plant for manufacturing of aluminium and copper electric coils which finds application in the production of Windmill generator. The operations have commenced from April 2022. Upto December 15, 2022, the TOI stood modest at ₹ 19.37 crore from sales of coils primarily to its associate concerns. The scale of operations is envisaged to grow gradually from the current year.

Debt funded capital expenditure: CEL plans to enhance its production capacity with total project cost of ₹ 8.39 Crore, structured to be funded by the way of term loan of ₹ 6.72 Crore and rest from promoter's fund in the form of unsecured loans. With the current set up, the company could be able to produce 120 sets of EP3 coils and 80 sets of EP5 coils. The company expects to increase the production of EP5 coils, which is a high-value item for the company, from 80 sets to 192 sets while matching the timeline of EP3 coil's production cycle. Achievement of financial closure and successful commencement of operations post completion without cost and time overrun will remain critical from credit perspective.

Highly susceptible to volatility in metal prices influencing profitability margins: Aluminium/copper prices have experienced immense volatility in the past one year. Commodity prices are prone to fluctuation as these are impacted by geopolitical events and state of global economy. With Russia- Ukraine conflict, increased fed rated to curb raising inflation, and fuel costs touching multiyear these input prices significantly influence profitability margins of company, thereby remains the key monitorable.

Key Rating Strengths

Qualified and experienced promoters: Mr P Rajarajan, the managing director of the company, is an Electrical Engineering graduate from Regional Engineering College (now National Institute of Technology), Trichy in late 1970s. He started his career as the proprietor of a workshop in Erode which carried out repair works on domestic appliance like radio, fans, mixies and electric motors. The proprietorship concern was later converted into a partnership firm by inducting his wife Mrs Krishnaveni and son Mr

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Rajkumar as the other partners. The firm was later converted into a private limited company in June 2006 with the name Coral Rewinding India Private Limited (CRIPL). Later in 2010, Mr Rajarajan started another company named M/s Coral Coil India Private Limited, which is engaged in manufacture of LT and HT coils for supply to OEMs and also for captive consumption of CRIPL. Mr Rajarajan is ably supported by his son, Mr. K R Rajkumar who takes care of the marketing function mainly and has arranged many expos abroad which helped Coral entities to get business in domestic and foreign market.

Established clientele: CEW was set up as a backward integration for supply of coils to its associate entity M/s Coral Manufacturing Works India Private Limited (CMW) which is into manufacture of wind electric generators for Enercon, a German based wind turbine company. Currently, the company caters only to CMW, however going forward the company plans to diversify its client base as well as product line.

Favourable outlook for wind energy generation: India, the world's fourth-largest wind power market, is expected to add nearly 20.2 GW of new wind power capacity between 2021-2025. This would increase the country's 39.2 GW wind market by nearly 50%. India currently has a pipeline of projects of 10.3 GW in both central and state tenders, which are expected to drive installations until 2023. Globally, there is a surge in demand for renewable energy sources which is expected to drive the wind energy markets as well. Governments across the globe are promoting sustainable energy sources, which can reduce carbon emission, unlike conventional power sources.

Liquidity: Stretched

Liquidity position of the company remained stretched with nascent stage of operations and high dependence on external working capital bank borrowings. The average utilisation of the fund-based facilities also stood high at around 90% for the 12 months ended November 2022. The term loan repayments have already started from Q2FY23. The scaling up of operations and generation of sufficient accruals would be critical from a credit perspective.

Analytical approach: Standalone

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

About the company

Coral Engineering Works India Private Limited (CEW) was incorporated during May 2020, intending to operating as backward integration for its associate entity M/s Coral Manufacturing Works India Private Limited for supply of raw material viz HT (High Tension) and LT (Low Tension) Aluminium and Copper electric coils which finds application in the production of Windmill generator. The company has become operational since April 2022 and has a production capacity of 120 sets of EP3 coil and 80 sets of EP5 coil (672 pieces per set).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	8MFY23 (Prov.)
Total operating income	NA	NA	19.37
PBILDT	NA	NA	NA
PAT	NA	NA	NA
Overall gearing (times)	0.09	7.56	NA
Interest coverage (times)	NA	NA	NA

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	14.57	CARE BB-; Stable
Term Loan-Long Term		-	-	Dec 2028	11.65	CARE BB-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT*	14.57	CARE BB-; Stable				
2	Term Loan-Long Term	LT*	11.65	CARE BB-; Stable				

*Long term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities – Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Term Loan-Long Term	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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