GK Energy Marketers Private Limited

July 15, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	15.00	CARE BB; Positive (Double B; Outlook: Positive)	Assigned
Short Term Bank Facilities	5.00	CARE A4+ (A Four Plus)	Assigned
Total Bank Facilities	**20.00 (₹ Twenty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of GK Energy Marketers Private Limited (GKEMPL) are constrained on account of its modest scale of operations limiting the financial flexibility, moderate profit margins & solvency position and working capital intensive nature of operations. The ratings are also constrained on account of its presence in competitive industry, and exposure to fluctuation in input prices. The ratings however, derive strength from demonstrated growth in scale of operations during last three years ended FY22 (Audited: period from April 01 to March 31) on the back of improved order inflows and execution. The rating also factors in established track record of the company, experienced promoters, satisfactory order book position and adequate liquidity.

Rating Sensitivities

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

- Sustained increase in the scale of operations above 150 crores along with improvement in PBILDT margins above 7% on a sustained basis.
- Improvement in the capital structure with overall gearing below 2x
- Improvement in the liquidity position of the company with gross current asset days below 120 days

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

- Decline in gross cash accruals below the envisaged level
- Deterioration in overall gearing beyond 3x
- Deterioration in liquidity position due to elongated collection period

Outlook: Positive The outlook on the long-term rating of GKEMPL has been assigned 'Positive' considering expectation of improvement in its business and financial risk profile in the medium term supported by favorable growth prospects with the government's focus towards increased usage of renewable energy.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations, albeit robust growth in revenue in the past three years ended in FY22

The total operating income (TOI) of the company has seen a robust growth since last three years ended in FY22 at a Compounded Annual growth rate of ~42%. There was a y-o-y growth rate of 26% in FY22 to Rs. 70.39 crore as against Rs. 55.88 crore in FY21.The growth is mainly on account of increase in orders inflow and execution under Pradhan Mantri Kisan Urja Suraksha evam Utthaan Mahabhiyan Yojana (PM-KUSUM Scheme). Till June 01 2022, the company has already achieved a TOI of Rs. 23.49 crores. Despite the demonstrated growth in TOI during last three years, the scale of operations remained modest. The tangible networth of the company also stood modest at Rs. 8.89 crore as on March 31, 2022.

Moderate profitability margins and exposure to fluctuation in input prices

The profitability margins of the firm remained moderate with PBILDT margins between 7.09%-13.74% and PAT margins between 1.91%-4.26% respectively for the last three years ended FY22. The profit margin declined in FY22 owing to increase in prices of input materials and intense competition in the industry. Further, there is a meaningful time lag between bidding and award of work order under government contracts, the company's profitability remains highly volatile in the absence of price escalation clause in the contracts, and intense competition.

Moderate solvency position

The capital structure of the company attributes to covid loans, unsecured loans from related parties and cash credit. The modest capital base as against the high external debt resulted in moderate capital structure as reflected by overall gearing ratio of 2.46x as on March 31, 2022. The overall gearing ratio, though leveraged has improved over the years marginally on account of accretion of profit to reserves and schedule payment of loans. The debt coverage indicators remain moderate, with PBILDT interest coverage ratio at 1.89x and total debt to gross cash accruals at 11.17x as at the end of FY22.

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

Working capital intensive nature of operations
GKEMPL operations are inherently working capital intensive in nature. The company's revenue model is both tender based as well as order based, with majority of its revenue contributed by sales under the tenders floated by government agencies. As the volume, value and time of such sales is difficult to predict, GKEMPL maintains moderate raw material inventory of around a month to meet the requirements. Further, collection period also generally remains high during the year end, as ~75% of the sales is booked in the last quarter of the year and also partly due to security deposits. The security deposits are released gradually and the release of the same varies for various nodal agencies.

Key Rating Strengths
Established track record and experienced promoters
Incorporated in 2008, the company has been engaged in assembling and installation of solar energy products, hence the company has a long track record in the solar energy industry. Further, Mr Gopal Kabra, Managing Director who looks after the day-to-day and overall management of company's affairs holds Master's degree in marketing and has about diverse experience of one and a half decade of experience in the industry. He is ably assisted by Mr Mehul Shah, who also has experience of around one and a half decade in similar line of industry.

Association with reputed clientele and satisfactory order book position
GKEMPL has an established customer base with revenues being derived from the domestic market. The company executes work orders received under PM-KUSUM Scheme, State agencies, and private players. The company presently has an order book to sales ratio of 2.01x of FY22 TOI for supply, installation, testing, commissioning of off-grid solar photovoltaic water pumping systems on turnkey basis for irrigation purpose under PM-KUSUM Scheme.

Favorable growth prospects with government's impetus on renewable energy; albeit competitive industry
India is one of the largest regional markets for solar pumps after Middle East Asia (MEA) and China and is expected to be one of the fastest growing markets over the next few years. The government is also emphasizing use of solar pumps by providing capital subsidy for installation of solar pumps as well as solarization of existing pumps to reduce the consumption of grid power. For this, government has launched various schemes including KUSUM which has resulted in healthy order inflows for industry players such as GKEMPL. However, the industry is characterized by high competition, both from organized and unorganized players, which restricts the margins of the industry players to certain extent.

Liquidity: Adequate
GKEMPL's liquidity remained adequate marked by sufficient cushion available in debt servicing on the back of healthy cash accrual generation envisaged as against repayment obligations of around Rs.0.64 crore to Rs.1.50 crore in FY23 to FY25. The company has modest cash & bank balance of Rs. 0.45 crore as on March 31, 2022. The cash credit utilization stood at 80% during last twelve months ended May 31, 2022. The unutilized bank lines and promoter's support in terms of unsecured loans provide additional liquidity cushion.

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
Short Term Instruments
Manufacturing Companies

About the Company
GKEMPL was incorporated on October 14, 2008 by Mr. Gopal Kabra. The company till 2011, was a consultant to "The Ministry of New & Renewable Energy" (MNRE), the Government of India. Post that, GKEMPL shifted to product base segment. The company is engaged in assembling and installation of solar energy products such as solar water pumps, solar home lights, solar photovoltaic panel, which find application in irrigation, residential as well as industrial sectors. The company also generates revenue through sale of electricity, which comprises of less than 2% of the total operating income in a fiscal year

Brief Financials (Rs. crore)	31-03-2021(Audited)	31-03-2022 (Provisional)	Q1FY23
Total operating income	55.88	70.39	NA
PBILDT	5.15	4.99	NA
PAT	1.73	1.34	NA
Overall gearing (times)	2.58	2.46	NA
Interest coverage (times)	2.13	1.89	NA

NA: Not available

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: 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	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	15.00	CARE BB; Positive
Non-fund-based - ST-Bank Guarantee		-	-	-	5.00	CARE A4+

Annexure-2: Rating History of 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	15.00	CARE BB; Positive	-	-	-	-
2	Non-fund-based - ST-Bank Guarantee	ST	5.00	CARE A4+	-	-	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / 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	Non-fund-based - ST-Bank Guarantee	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 instrument: CARE Ratings Ltd. 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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