GK Energy Marketers Private Limited

October 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	27.50 (Enhanced from 15.00)	CARE BB+; Stable	Revised from CARE BB; Positive
Short Term Bank Facilities	7.50 (Enhanced from 5.00)	CARE A4+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in long term rating assigned to the bank facilities of GK Energy Marketers Private Limited (GKEMPL) takes into account the robust growth in the scale of operation during FY23 (refers to the period from April 01 to March 31). The ratings continue to remain constrained by its moderate scale of operations and modest networth limiting the financial flexibility, moderate profit margins, exposure to fluctuation in input prices, moderate solvency position and working capital intensive nature of operations. The ratings, however, continue to derive strength from established track record of the company, experienced promoters, reputed clientele, satisfactory order book position and adequate liquidity.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained increase in the scale of operations resulting in improved gross cash accruals above ₹30 crore
- 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

- Decline in gross cash accruals below the envisaged level
- Deterioration in overall gearing beyond 2.5x
- Deterioration in liquidity position with gross current asset of 200 days

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectations that the company shall be able to sustain its credit risk profile on account of experienced promoters, satisfactory orderbook and reputed clientele.

Detailed description of the key rating drivers:

Key weaknesses

Growing yet moderate scale of operations: The total operating income (TOI) of the company has seen a robust growth since last three years ended in FY23 with a significant y-o-y growth rate of 305% in FY23 to ₹285.03 crore as against ₹70.46 crore in FY22.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). During H1FY24 (refers to the period April 01 to September 30), the company has already achieved a TOI of ₹176.07 crore. Despite the demonstrated growth in TOI during last three years, the scale of operations remained moderate. The tangible networth of the company continues to remain modest at ₹19.78 crore as on March 31, 2023.

Moderate profitability margins and exposure to fluctuation in input prices: The profitability margins of the company have declined over the past three years ended in FY23, and remain moderate with PBILDT margins in the range of 6.00%-9.21% and PAT margins in the range of 2.11%-3.51%. The profit margin further declined in FY23 by 114 bps owing to volatile prices of input materials and intense competition in the industry. Further, the company's profitability also remains exposed to volatility in the absence of any price escalation clause in the contracts.

Improved, yet moderate solvency position: The capital structure of the company attributes to covid loans, unsecured loans from related parties and cash credit aggregating to ₹40.21 crore as against tangible net worth of ₹19.78 crore. The modest capital base as against the external debt resulted in moderate capital structure as reflected by overall gearing ratio of 2.03x as on March 31, 2023 (P.Y. 2.41x). The overall gearing ratio has improved over the years mainly on account of accretion of profit to reserves

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

and schedule payment of loans. With improvement in profit levels, the debt coverage indicators also improved with interest coverage and total debt to gross cash accruals of 5.08x and 3.82x as at the end of FY23 (P.Y. 1.90x and 10.85x).

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. The gross current asset, though improved, remained high at 172 days during FY23 (P.Y. 322 days). As the volume, value and time of such sales is difficult to predict, GKEMPL maintains moderate raw material inventory of around 15-30 days to meet the requirements. Further, the average collection period though remained high also have improved in FY23 to 87 days. The working capital requirements are partly funded by cash credit, and credit from suppliers.

Key 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 1.96x of FY23 TOI, mainly 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 along-with China & Japan 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 at ₹20-22 crore as against repayment obligations of around ₹6 crore in FY24 The company has modest cash & bank balance of ₹0.67 crore as on March 31, 2023. The cash credit utilization stood at ~80% during last twelve months ended August 31, 2023. The unutilized bank lines in terms of unsecured provide additional liquidity cushion. The net cash flow from operations stood negative during FY23.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

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
Service Sector Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Other Industrial Products

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 1% of the total operating income in a fiscal year.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
Total operating income	70.46	285.03	176.07
PBILDT	5.03	17.10	11.18
PAT	1.49	10.02	6.93
Overall gearing (times)	2.41	2.03	NA
Interest coverage (times)	1.90	5.08	4.68

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: CRISIL, vide it's press release dated July 28, 2023, has moved the rating of the company under issuer not cooperating category in absence of adequate information from the issuer

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: Annexure-4

Lender details: Annexure-5

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		-	-	-	27.50	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	7.50	CARE A4+

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	27.50	CARE BB+; Stable	-	1)CARE BB; Positive (15-Jul-22)	-	-
2	Non-fund-based - ST-Bank Guarantee	ST	7.50	CARE A4+	-	1)CARE A4+ (15-Jul-22)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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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About us:
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