Karamtara Engineering Private Limited

October 10, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	88.55	CARE A-; Stable	Assigned
Long-term / Short-term bank facilities	1,270.00 (Enhanced from 125.00)	CARE A-; Stable / CARE A2+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Karamtara Engineering Private Limited (KEPL) consider the diversification measures adopted by the promoters, thereby significantly reducing the revenue share of the historically higher transmission towers and profiles business, with a strategic shift towards manufacturing of solar structures. During the last three fiscals (FY21 to FY23; refers to the period April 01 to March 31), share of solar products in KEPL's total revenue has grown from less than 20% to above 70%. During Q1 FY24 (refers to the period April 01 to June 30), share of solar products have increased to more than 80%. KEPL has also been able to garner significant exports orders, with exports now accounting for a share of 76% in FY23 of the total sales as compared with around 41% in FY21.

The rating factors the long-standing track record of operations and experienced promoter and management team. The company has a well-diversified product mix, thereby enabling end-to-end solutions for the solar players. CARE Ratings Limited (CARE Ratings) has positively factored the change in the order-booking mechanism under which the company has transitioned from earlier fixed-price contracts to umbrella contract mechanism, under which the input cost inflation risk gets reduced. The comfort on the revenue visibility is being drawn from the unexecuted orderbook of ₹1,538 crore as on April 1, 2023. Overall gearing was moderate at 1.52x, while long-term debt to equity ratio was low at 0.35x as on March 31, 2023. The debt taken for solar capacity capex and COVID-19-related working demand loan during FY20 and FY21 increased the financial leverage of the company. However, there has been gradual reduction in long-term debt (including current portion of LT debt) from ₹206.5 crore during March 31, 2021, to ₹157.8 crore as on March 31, 2023. The company has adequate liquidity marked by ₹9.91 crore of unrestricted cash and low counterparty credit risk due to reputed customer base.

The rating strengths are, however, tempered by higher working capital intensity (although improved continues to remain marginally higher), low current ratio, exposure to commodity price fluctuation and forex risk. Any loss of major customers or adverse tariffs/ restrictions on imports of solar products by any country to which KEPL has a major exposure could adversely hamper the revenues of the company and remains a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Augmentation in PBILDT margins to 12-14%, alongside higher scale of operations.
- Improvement in the financial risk profile with total debt by PBILDT below 3x on a sustained basis.

Negative factors

- Elongation of the operating cycle to more than 110 days on a sustained basis.
- Any major debt-funded capex, resulting in total debt by PBILDT above 4.5x on a sustained basis.
- Sustained decline in sales to less than ₹1,500 crore.

Analytical approach: Consolidated

KEPL, along with its subsidiaries, operate in the same line of business and have significant operational, financial, and management linkages. The list of subsidiaries adopted for consolidation is provided below:

Name of companies/ Entities	% of holding (as on June 30, 2023)
Karamtara Italy SRL	100%
Karamtara USA	100%

Outlook: Stable

The stable outlook reflects the improvement in the business and financial risk profiles of the company and presence in the rapidly growing solar industry. The financial flexibility of the company is adequate owing to total debt mainly comprising acceptances.

Detailed description of the key rating drivers:

Key strengths

Operational track record and rapid expansion of client base in solar segment

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

The company has a strong track record in the power transmission & distribution (T&D) segment having supplied 550,000 metric tonne of transmission line towers in more than 25 countries. The company has preferred vendor status from various utilities and supplies to players like PGCIL, KEC International, L&T, Kalpataru, Tata Power, Sterlite, Sterling & Wilson, Adani Power, etc. The combined installed capacity for all the products stands at 3.13 lakh metric tonne with capacity utilisation of 67% for FY23. However, pre-COVID-19, the company had focused on building capacity for solar products. The manufacturing facilities (primarily solar MMS, beams) having undergone stringent audit by large customers in US/Europe, are approved for export to major solar EPC players/ aggregators. The solar products now contribute 72% of overall sales in FY23 as against 20% in FY21. During the same period, the sales from transmission line towers have come down from 40% to 10%. CARE Ratings draws comfort from the reputed client base, location advantage (proximity to port for exports), however the customer concentration risk (~70% from top customers for FY23) is high and remains a key monitorable.

Strong revenue growth alongside moderate profitability

The net sales have grown at compounded annual growth rate (CAGR) of 24.4% for FY21-23 reaching ₹1,503 crore for FY23 and ₹482.5 crore for Q1FY24. Gross sales growth of 25% YoY for FY23 has been aided by 7.7% volume growth and 16.3% growth in realisations. The PBILDT margins have come down from 12-13% range to 9-11% range over last two fiscals, while ROCE in 11-15% range for last five fiscals. The moderation in margins have been attributable to volatility in finished steel prices and increase in freight costs due to exports. Interest costs have remained flattish and PAT margins have improved back to 2.6% during FY23 (from 0.9% in FY22).

Medium-term revenue visibility drawn from orderbook strength and strong product mix

The comfort on the revenue visibility is being drawn from the unexecuted orderbook of ₹1,538 crore as on April 1, 2023, of which ₹1,362 crore is expected to be executed in FY24. Additionally, ₹1,816 crore worth of orders are in pipeline and under discussion stage.

The company is into end-to-end solutions for solar power and transmission power segment for manufacturing module mounting structure, transmission towers, beams, torque tubes, hi-tensile fasteners, hardware. Such level of integration is aided by strategic acquisitions done in the past by the company. The revenues are derived from the solar and power T&D segment having quickly diversified away from T&D segment and increased exposure to solar segment. Over past two fiscals, the company has intentionally reduced order-booking in the power T&D segment (revenues 33% YoY decline). This decline has been offset by strong focus in solar products. The company has broader client base both domestically and in international markets and across both transmission/power segment, providing us comfort in terms of stable revenues.

Key weaknesses

Financial risk profile constrained by working capital intensive operations

The leverage is higher due to significant Letter of credit (LC) backed acceptances (which comprise around 50% of total debt). Overall gearing was 1.52x, while debt to equity ratio was 0.35x as on March 31, 2023. The debt taken for solar capacity capex and COVID-19-related working demand loan during FY20 and FY21 increased the financial leverage of the company. However, there has been gradual reduction in term loan from ₹155 crore during March 31, 2021, to ₹103 crore as on March 31, 2023. The gross current asset (days) is quite high at 208 days (as on March 31, 2023) and have historically gone in the range of 8-10 months. However, the gross current asset (days) have come down from around 300 days during FY20 and FY21 to 208 days during FY23. The company earlier had to hold inventory for longer duration and project stalling/EPC project delays would stretch the company's inventory cycle.

Exposed to forex risk and commodity price fluctuation risk

The company is exposed to the foreign currency fluctuation risk due to 76% revenues from exports for FY23 (up from 41% and 57% in FY21 and FY22). For the orders to be delivered within 6 months, the company uses PCFC (packing-credit foreign currency) which acts as a natural hedge. For the orders above 6 months, all the transactions are being either hedged or, the company sometimes imports raw materials (instead of inland sourcing) to offset the forex risk from exports.

The input cost pass-through ability is moderate. The variation in steel prices may be passed on to the customer in the long-run, but the company has to absorb some of the steel price volatility in the short-term as selling prices generally reflects volatility with a time-lag. The company follows umbrella contract mechanism under which long-term purchase orders are placed by the customers, against which the prices are not fixed upfront. The prices are negotiated for batches of each small purchase order basis the market conditions, which acts as a mitigating factor for the volatility in the raw material prices. Additionally, CARE Ratings draws comfort from the long-standing relationship with reputed suppliers.

Liquidity: Adequate

The company has cash & liquid investments of ₹9.91 crore, while additional ₹18.87 crore bank deposit (mostly restricted) are held as on June 30, 2023. The current ratio is low at 1.2x for March 31, 2023 due to high LC backed acceptances. The unutilised fund-based working limits (₹300 crore sanctioned) stands at 27% for trailing 12-months ending July 2023. This provides some cushion in terms of ad-hoc liquidity requirements. Additionally, the counterparty credit risk is low, and the operating cycle has improved significantly over the last two fiscals.

Assumptions/Covenants Not applicable

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Electrical Equipment	Heavy Electrical Equipment

Incorporated in 1996, the company is a leading manufacturer of solar module mounting structure, solar beams, torque tubes for solar, transmission line tower, high-quality fasteners (nuts/bolts/washers/antitheft nuts), hot-rolled (high tensile and mild) structural steel and hardware fittings and conductor accessories. The company is catering to the entire Solar Power and Transmission segment in India as well as in overseas market. The company has total seven manufacturing facilities in India and Italy with total 374,000 metric tonnes per annum of combined capacity. Over the past few years, the company has shifted its focus from domestic power transmission segment to exports market catering to the solar sector. The executive promoter includes Tanveer Singh and Rajiv Singh who are the sons of the founder Late Hanwant Singh. They are accompanied by professional management team.

Brief Financials (₹ crore)	FY2022 (A)	FY2023 (A)	Q1FY2024 (UA)
Total operating income	1,244.90	1,600.31	482.61
PBILDT	128.56	155.04	48.43
PAT	12.65	42.36	15.91
Overall gearing (times)	1.88	1.52	-
Interest coverage (times)	1.64	1.93	2.53

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available', Financials have been prepared as per CARE Standards.

Status of non-cooperation with previous CRA: Not applicable

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Working capital term loan		-	-	FY2027	33.79	CARE A-; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	1270.00	CARE A-; Stable / CARE A2+
Term loan-Long term		-	-	FY2027	54.76	CARE A-; 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 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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	1270.00	CARE A-; Stable / CARE A2+				
2	Term loan-Long term	LT	54.76	CARE A-; Stable				
3	Fund-based - LT-Working capital term loan	LT	33.79	CARE A-; Stable				

*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-Working capital term loan	Simple
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
3	Term loan-Long term	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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