Karamtara Engineering Private Limited

January 09, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	-	-	Moved to ISSUER NOT COOPERATING category*; Downgraded to "CARE BBB+; Stable" from "CARE A-; Stable"; and withdrawn
Long Term / Short Term Bank Facilities	-	-	Moved to ISSUER NOT COOPERATING category*; Downgraded to "CARE BBB+; Stable / CARE A2" from "CARE A-; Stable / CARE A2+"; and withdrawn

Details of instruments/facilities in Annexure-1.

*Issuer did not cooperate; based on best available information.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has been seeking information from Karamtara Engineering Private Limited (KEPL) to monitor the rating vide e-mail communications dated December 21, 2024, December 18, 2024, and December 11, 2024, among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring of the ratings. In line with the extant SEBI guidelines, CARE Ratings has reviewed the rating on the basis of the best available information which however, in CARE Rating's opinion is not sufficient to arrive at a fair rating.

CARE Ratings has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB+; Stable ISSUER NOT COOPERATING/CARE A2 ISSUER NOT COOPERATING assigned to bank facilities of KEPL with immediate effect. The above withdrawal action has been taken at the request of the company and 'No Objection Certificate' received from all the bankers that have extended the facilities rated by CARE Ratings.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings have been revised on account of inadequate information for FY24 and current fiscal FY25 and hence, CARE Ratings' inability to arrive at a fair rating. 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. Overall gearing stood at 1.77x (vs. 1.52x as on March 31, 2023), while long-term debt to equity ratio moderated at 0.34x as on March 31, 2024. 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). The company has adequate liquidity marked by ₹45.16 crore of cash and liquid investments as on March 31, 2024, 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.

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 in Annexure 6.

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.

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

Detailed description of key rating drivers:

At the time of last rating on October 10, 2023, the following were the rating strengths and weaknesses (updated based on best available information):

Key strengths

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

The company has a strong track record in the power transmission and distribution (T&D) segment having supplied 550,000 metric tonne of transmission line towers in over 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 total operating income (TOI) have grown at compounded annual growth rate (CAGR) of 31.8% for FY21-24 reaching ₹2,425 crore for FY24. Growth of 15% year-over-year (y-o-y) was reported in FY24 been aided by strong volume growth. The profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins have come down from 12-13% range to 9-11% range over last two fiscals, while return on capital employed (ROCE) improved to 24.5% in FY24 (from 15% in FY23). Interest costs have remained flattish and profit after tax (PAT) margins have improved back to 4.23% in FY24 (from 2.65% in FY23).

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 was expected to be executed in FY24. Additionally, ₹1,816 crore worth of orders were 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. In FY22 and FY23, the company had 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 ~ 48% of total debt). Overall gearing was 1.77x, while debt to equity ratio was 0.34x as on March 31, 2024. 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. The gross current asset (days) has improved at 173 days as on March 31, 2024, (from 208 days as on March 31, 2023), but still remains at quite high level and have historically gone in the range of 8-10 months. However, the gross current asset (days) have come down from ~300 days level during FY20 and FY21. 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 55% revenues from exports for FY24 (down from 73% in FY23). For the orders to be delivered within six months, the company uses PCFC (packing-credit foreign currency) which acts as a natural hedge. For the orders above six 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 based on 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 ₹45.16 crore (including margin money) as on March 31, 2024. The current ratio is low at 1.12x for March 31, 2024, due to high LC backed acceptances. The unutilised fund-based working limits (₹300 crore sanctioned) stood 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

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

Applicable criteria

Policy in respect of non-cooperation by issuers
Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings
Policy on Default Recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Manufacturing Companies
Short Term Instruments
Withdrawal Policy

About the company and industry

Industry classification

Macroeconomic 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 (Consolidated) (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	1244.90	1600.31	2425.15
PBILDT	128.56	154.60	263.83
PAT	11.10	42.36	102.65
Overall gearing (times)	1.88	1.52	1.77
Interest coverage (times)	1.64	1.93	2.77

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Working capital Term Loan	-	-	-	FY27	-	Withdrawn
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	-	Withdrawn
Term Loan-Long Term	-	-	-	FY27	-	Withdrawn

Annexure-2: Rating history for 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 2024-2025	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
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	-	-	CARE BBB+; Stable / CARE A2; ISSUER NOT COOPERATING* (09-Jan-25)	1)CARE A-; Stable / CARE A2+ (10-Oct-23)	-	-
2	Term Loan-Long Term	LT	-	-	CARE BBB+; Stable; ISSUER NOT COOPERATING* (09-Jan-25)	1)CARE A-; Stable (10-Oct-23)	-	-
3	Fund-based - LT-Working capital Term Loan	LT	-	-	CARE BBB+; Stable; ISSUER NOT COOPERATING* (09-Jan-25)	1)CARE A-; Stable (10-Oct-23)	-	-

*Issuer did not cooperate; based on best available information.
LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Karamtara Italy SRL	Full	Subsidiary
2	Karamtara USA	Full	Subsidiary

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

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 912267543404 E-mail: saikat.roy@careedge.in	Pulkit Agarwal Director **CARE Ratings Limited** Phone: +91-22- 6754 3505 E-mail: pulkit.agarwal@careedge.in Hitesh Avachat Associate Director **CARE Ratings Limited** Phone: +91-22- 6754 3510 E-mail: hitesh.avachat@careedge.in Pranay Tandon Analyst **CARE Ratings Limited** E-mail: Pranay.tandon@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

For detailed Rationale Report and subscription information,
please visit www.careedge.in