

December 31, 2021

Kosol Energie Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – CC	6.00	6.00	[ICRA]A-(CE)(Stable); reaffirmed
Non-fund Based Limits – LC, BG	6.00	6.00	[ICRA]A2+(CE); reaffirmed
Total	12.00	12.00	

*Instrument details are provided in Annexure-1

Rating Without Explicit Credit Enhancement	[ICRA]BBB/[ICRA]A3+
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Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. The change in suffix is not to be construed as a change in rating. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The rating reaffirmation considers the strength of the corporate guarantee provided by Kalthia Engineering and Construction Ltd. (KECL), the parent of Kosol Energie Private Limited (Kosol), for the bank line facilities of Kosol. The ratings also consider the established track record of promoters in the solar power sector with presence manufacturing and carrying out EPC work for solar water heater and solar photo voltaic technologies and its established dealer network of more than 300 dealers across Gujarat, Rajasthan, Madhya Pradesh amongst other states. The order book position of Rs. 373.21 crore as on October 01, 2021 (i.e. 4 times of FY2021 revenue) provides revenue visibility in the medium term while the capital structure and coverage indicators remain comfortable owing to low reliance on external debt. The ratings, however, remain constrained by the modest scale of operations and intense competition in the solar EPC segment.

The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor KECL.

Adequacy of credit enhancement

The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument. Given these attributes, the guarantee provided by KECL is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]A-(CE) against the rating of [ICRA]BBB without explicit credit enhancement. In case the rating of the guarantor is to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants related to the credit enhancement, as specified in the terms of the transaction

- The guarantee is unconditional, irrevocable and absolute.
- The Guarantor shall, on demand, forthwith pay the guaranteed obligations without demur or protest.
- The guarantee is a continuing security and shall remain in full force till all dues under the above-mentioned facilities are met.

Key rating drivers and their description

Credit strengths

Established track record of promoters in solar power business – The company's promoters have more than a decade of experience in the solar space. Kosol initially started manufacturing solar water heaters and provided other solutions based on solar thermal technologies in Gujarat. Subsequently, in 2012, the company forayed into solar photo voltaic (PV) technologies and in 2019 to executing EPC projects.

Strong order book position and extensive dealer network – The company, at present, has an order book position of Rs. 373.21 crore as on October 01, 2021 (i.e. 4 times of FY2021 revenue) providing revenue visibility in the medium term. Further, Kosol has an established dealer network of more than 300 dealers across Gujarat, Rajasthan, Madhya Pradesh amongst other states. The company sells its product under the brand names of Kosol and Sunray.

Comfortable capital structure and moderate coverage indicators – Kosol has limited reliance on external debt with outstanding total debt of Rs. 12.0 crore as on March 31, 2021 against the net worth of Rs. 31.4 crore, resulting in a moderate capital structure as reflected by gearing of 0.4 times as on FY2021-end. The coverage indicators, though lowered due to lower operating profitability margins, continue to remain moderate as reflected by interest coverage of 3.4 times for FY2021.

Corporate guarantee from KECL – KECL has provided an unconditional and irrevocable corporate guarantee for the bank facilities of Kosol.

Credit challenges

Moderate scale of operations – Kosol has grown at a CAGR of ~43% over FY2015-FY2020, however, the absolute scale of operations remains moderate at Rs. 137.7 crore for FY2020. The revenues declined by 34% to Rs. 100.4 crore in FY2021 owing to decline in capacity utilization for its solar modules from 12% in FY2020 to 5.56% in FY2021. Although the company has been able to ramp up operations and report revenue of Rs. 107 crore in 9mFY2022, the revenues are expected to remain moderate in the medium term.

Intense competition in both domestic and international markets – Kosol faces intense competitive pressures both from established domestic manufacturers as well as overseas manufacturers based in China, the USA, Taiwan and Malaysia.

Liquidity position:

For the [ICRA]A-(CE)/[ICRA]A2+(CE) rating: Adequate

KECL's has repayments of Rs. 23 crore and equity commitment of Rs. 60 crore in FY2022 and Rs. 10 crore of repayment and Rs. 40 crore of equity commitment in FY2023. While KECL is adequately placed to infuse the required equity for FY2022 and funding support required towards operational BOT projects by way of top-up loan in operational HAM project and its cash flow from operations; incremental funding commitment towards any new BOT projects would be remain a key credit monitorable. The company has cushion of Rs. 13 crore in form of unutilised cash credit limits as on October 31, 2021.

For the [ICRA]BBB/[ICRA]A3+ rating: Adequate

Kosol's liquidity is expected to remain adequate, as the cash flow operations is expected to be sufficient for repayment obligation. Moreover, absence of capex plans in the near term supports its liquidity position.

Rating sensitivities

Positive factors – Improvement in the credit profile of the sponsor may lead to a rating upgrade.

Negative factors – Pressure on the ratings arise if the scale of operations or operating margins decline substantially adversely impacting the debt coverage indicators. Any increase in working capital cycle resulting in weakened liquidity position would also be a negative trigger. Deterioration in the credit profile of the sponsor or weakening of linkages with the sponsor may lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	The ratings are based on the unconditional and irrevocable corporate guarantee from the sponsor, KECL.
Consolidation/Standalone	Standalone

About the company

Kosol was originally incorporated as a partnership concern (named M/S Hiramrut Solar Energy). In 2005, it was converted into a private limited company with its name being changed to Kosol Hiramrut Energies Private Limited in 2010, and to its current name in FY2017. It manufactures thermal-based solar products and has an installed capacity of 54.75 lakh litres per annum for solar water heaters (SWH). Kosol has increased its installed capacity of its solar PV modules manufacturing plant to 170 mega watt (MW) per annum from 25 MW in FY2019.

Key financial indicators (audited)

	FY2020	FY2021*
Operating Income (Rs. crore)	137.8	90.6
PAT (Rs. crore)	4.2	1.5
OPBDIT/OI (%)	8.6%	5.9%
PAT/OI (%)	3.0%	1.6%
Total Outside Liabilities/Tangible Net Worth (times)	2.4	2.1
Total Debt/OPBDIT (times)	0.9	2.3
Interest Coverage (times)	4.8	3.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation* provisional

About the guarantor

Established in 1960 as a partnership firm in Bhavnagar (Gujarat), Kalthia Engineering and Construction Limited was converted into a limited company in 1996. KECL, promoted by Mr. Ratilal Kalthia, is primarily involved in the civil construction of roads, pipe-laying, bridges, etc. KECL is recognised as a AA Class (highest in the scale of AA to E) contractor by the PWD of the Government of Gujarat (GOG). The company's registered office is in Ahmedabad (Gujarat). Its major clients include the National Highways Authority of India (NHAI), Ministry of Roads, Highway and Transportation (MoRTH), the R & B Division (Jamnagar), the R & B Division (Rajkot), the Gujarat Urban Development Corporation and Executive Engineer (GIDC, Bharuch), among others.

For detailed rating rationale on Kalthia Engineering and Construction Limited, please click [here](#)

Key financial indicators - Standalone

KECL	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	706	984	1,026
PAT (Rs. crore)	26	56	52
OPBDIT/OI (%)	7.1%	9.7%	8.1%
PAT/OI (%)	3.7%	5.6%	5.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.7	2.1	1.3
Total Debt/OPBDIT (times)	1.5	0.8	0.8
Interest Coverage (times)	8.8	7.2	11.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 29, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Dec 31, 2021				
1	Fund based Limits	Long-term	6.00	-	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)	[ICRA]A-(SO) (Stable)	
2	Non-Fund based Limits	Short term	6.00	-	[ICRA]A2+(CE)	[ICRA]A2+(CE)	[ICRA]A2+(CE)	[ICRA]A2+(SO)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – CC	Simple
Non-fund Based Limits – LC, BG	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund based Limits	-	-	-	6.00	[ICRA]A-(CE) (Stable)
NA	Non-Fund based Limits	-	-	-	6.00	[ICRA]A2+(CE)

Source: Kosol Energie Private Limited

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Vinay Kumar G
+91 40 4067 6533
vinay.g@icraindia.com

Anuja Shah
+91 79 4027 1530
anuja.shah@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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