

November 15, 2019

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 in Annexure-1

Rating Without Explicit Credit Enhancement	[ICRA]BBB
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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

ICRA has taken a consolidated view of Kalthia Engineering and Construction Ltd. (KECL) and its subsidiaries and special purpose vehicles (SPV) incorporated to carry out road construction projects, wherein KECL has extended corporate guarantee towards debt obligations of those subsidiaries and SPVs. The above rating considers the strength of the corporate guarantee provided by KECL, the parent of Kosol Energie Private Limited (Kosol), for the bank line facilities of Kosol. 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 sector – 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.

Strong order book position and extensive dealer network – The company, at present, has an order book position of Rs. 321 crore as on August 31, 2019 (i.e. 3.2 times of FY2019 revenue). The order book provides revenue visibility in the near to 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.

Conservative capital structure and comfortable coverage indicators – Kosol has limited reliance on outside debt with outstanding total debt of Rs. 9.1 crore as on March 31, 2019 against the net worth of Rs. 29.1 crore, resulting in a favourable capital structure as reflected by gearing of 0.3 times as on FY2019-end. Further, limited debt and moderate profitability resulted in comfortable coverage indicators indicated by interest coverage of 6.3 times and NCA/Total Debt of 89% for FY2019.

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 ~34% over FY2015-FY2019, however, the absolute scale of operations remains moderate at Rs. 100.4 crore for FY2019. Hence, given the moderate scale, its bargaining power with suppliers and customers is limited.

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. However, the demand indicators for the Indian solar PV module manufacturers is expected to be healthy in the near to medium term supported by favourable prospects for the solar industry in India.

Liquidity position: Adequate

Kosol’s liquidity position is driven by the liquidity of its guarantor i.e. KECL. Further, at the standalone level, the liquidity is expected to remain adequate since, Kosol is likely to generate fund flow from operations worth ~Rs. 10-11 crore in FY2020, against which it has repayment obligations of less than Rs. 0.5 crore and it does not have any major capex plans in near term.

Rating sensitivities

The rating assigned to the bank lines of Kosol would remain sensitive to any movement in the rating or outlook of the guarantor, KECL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach Impact of Parent or Group Support on an Issuer's Credit Rating Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent: Kalthia Engineering and Construction Ltd The assigned ratings are based on unconditional, irrevocable corporate guarantee extended by Kosol's parent company, KECL.
Consolidation / Standalone	For arriving at the ratings, ICRA has consolidated the financials of the various group entities of KECL (as mentioned in Annexure-2) given the close business, financial and managerial linkages among them.

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) - Standalone

	FY2018	FY2019*
Operating Income (Rs. crore)	91.4	100.4
PAT (Rs. crore)	1.7	4.4
OPBDIT/ OI (%)	6.9%	10.8%
RoCE (%)	13.1%	23.0%
Total Debt/ TNW (times)	0.3	0.3
Total Debt/ OPBDIT (times)	1.1	0.8
Interest coverage (times)	4.8	6.3
DSCR (times)	4.6	5.2

* provisional

About the Guarantor

Established in 1960 as a partnership firm in Bhavnagar, Kalthia Engineering and Construction limited (KECL) was converted into a limited company in 1996. KECL is promoted by Mr. Ratilal Kalthia along with his sons Mr. Hitesh Kalthia and Mr. Kalpesh Kalthia. The company is primarily involved in civil construction business (mainly roads, pipe-laying, building bridges, etc). KECL is recognised as an AA class (highest in the scale of AA to E) contractor by the Public Works Department (PWD) of Government of Gujarat (GOG). Its registered office is in Ahmedabad (Gujarat). Its major clients include the National Highway Authority of India, R& B Division (Jamnagar), R& B Division (Rajkot), Gujarat Urban Development Corporation and Executive Engineer (GIDC Bharuch) among others.

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

Key financial indicators (Audited) - Standalone

	FY2018	FY2019*
Operating Income (Rs. crore)	482.9	724.5
PAT (Rs. crore)	18.1	30.7
OPBDIT/ OI (%)	7.5%	8.0%
RoCE (%)	17.9%	21.6%
Total Debt/ TNW (times)	0.2	0.4
Total Debt/ OPBDIT (times)	1.0	1.4
Interest Coverage (times)	7.7	8.7
DSCR (times)	1.9	3.0

* provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)			Chronology of Rating History for the past 3 years			
				Date & Rating (FY2020)	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2016	
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	November 15, 2019	May 21, 2018	May 2017		
1 Fund Based Limits	Long-Term	6.00	-	[ICRA]A-(CE) (Stable)	[ICRA] A-(SO)(Stable)	[ICRA] A-(SO)(Stable)	-	
2 Non-Fund Based Limits	Short-Term	6.00	-	[ICRA]A2+(CE)	[ICRA] A2+(SO)	[ICRA] A2+(SO)	-	

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership by KECL	Consolidation Approach
Kalthia Engineering and Construction Ltd	-	Parent Company of Kosol
KosolEnergie Pvt Ltd	78.17%	Full Consolidation
Kalthia Infracon Pvt Ltd	100%	Full Consolidation
Kalthia Infra Pvt Ltd	100%	Full Consolidation
Kalthia Priyheer Infrastructure Pvt Ltd	26%	Full Consolidation
Kalthia AshtiPachod Pvt Ltd	100%	Full Consolidation
Kalthia BagodaraTarapur Highway Pvt Ltd	100%	Full Consolidation

Source: Kosol

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