



Rating Rationale

Karma Energy Ltd.

31 Mar 2020

Brickwork Ratings upgrades the Rating for enhanced Bank Facilities of Rs.34.31 Crs of Karma Energy Ltd. ('KEL' or 'the Company')

Particulars

Facility	Amount (Rs. Crs)		Tenure	Rating *	
	Previous	Present #		Previous (16 Mar 2020)	Present (31 Mar 2020)
Fund based Term Loans	4.34**	34.31**	Long Term	BWR BB+/Stable Issuer Not Cooperating	BWR BBB-/Stable Upgraded
Total	4.34	34.31	Rupees Thirty Four Crores and Thirty One Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Annexure I shows the detailed facilities

**outstanding

RATING ACTION/OUTLOOK: Upgraded/Stable

Brickwork rating upgrades the rating of KEL to BWR BBB-/Stable. The rating continues to draw promoters experience in the industry and financial support from group companies. However, the rating remains constrained by high gearing levels, weak debt coverage indicators and stretched liquidity position, delayed debtors realisation and exposure to the risk of regulatory changes.

KEY RATING DRIVERS

Credit strengths:

- **Experienced promoter**

The promoter of KEL, Mr. Chetan Mehra has more than three decades' experience in the wind power generation business.

- **Group support**

KEL is a part of Weizmann group which has 3 other companies in it i.e. Weizmann Ltd., Windia Infrastructure Finance Ltd. (WIFL) and Tapi Energy Projects Ltd. (TEPL) Windia Infrastructure has given corporate guarantee to the Bank Loans of KEL. WIFL is an investment company and have a healthy networth base of Rs.138.45 Crs as on March 31, 2019. In FY19, WIFL reported a Total Operating Income (TOI) of Rs.145.62 Crs and PAT of Rs.94.37 Crs. Apart from the bank loans of KEL, the remaining Weizmann group is debt



free. In FY19, WIFL and TEPL have provided inter corporate deposits to the tune of Rs.16.17 Crs to KEL. Group companies and promoters have provided financial support to KEL whenever required and going ahead any mismatch in cash flows will be funded by financial support from group companies/promoters.

Credit Weaknesses:

- **Below average credit risk profile marked by high gearing and weak debt coverage indicators**

Owing to low REC sales, in FY19, the TOI of KEL has decreased to Rs.35.86 Crs as against Rs.40.30 Crs in FY18. This resulted in a liquidity crunch for KEL and to support its working capital requirement and fulfil its debt obligations, KEL has taken short term inter corporate deposits from its group companies. As a result, Total Gearing of KEL has deteriorated to 2.87x as on March 31, 2019 as against 1.13x as on March 31, 2018. Owing to the same reasons, KEL's ISCR and DSCR for the year decreased to 1.08x and 0.09x respectively, as against 1.52x and 0.44x for FY18.

- **Delayed Debtors realisation**

Due to financial problems faced by state utilities of Tamil Nadu and Andhra Pradesh, Trade receivable of KEL has remained high at Rs.10.46 Crs as on March 31, 2019 as against Rs.8.43 Crs as on March 31, 2018. The same are expected to be received in Q1FY20.

- **Exposure to changes in regulatory policies**

The Company is susceptible to risks arising from changes in Government regulations and policies affecting the industry. They have a direct bearing on the operational continuity, revenue generation and profitability.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has essentially relied upon the standalone and consolidated audited financials of the Company upto FY19, standalone unaudited financial results upto 9MFY20 period and standalone projections upto FY21, publicly available information and information/clarifications provided by the management.

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale)

RATING SENSITIVITIES

Going forward the ability of the Company to improve its debt coverage indicators and timely collection of its debtors would be the key rating sensitivities.

Positive: Improvement in gearing levels and debt coverage indicators would be positive for the rating.



Negative: Deterioration in debt coverage indicators and further deterioration in gearing levels would be negative for the rating.

LIQUIDITY POSITION: Weak

The liquidity position of KEL remained weak with low cash accruals compared to repayment obligations, however with timely funds infusion by group companies/promoters KEL repaid its debt obligations in a timely manner. Going ahead any mismatch in cash flows will be funded by financial support from group companies/promoters. Timely realizations of receivables is expected to improve liquidity in medium term for KEL.

COMPANY PROFILE

Karma Energy Ltd. (KEL) is a public limited company, listed on NSE and BSE. It was incorporated on 15th March 2007. The company belongs to the Weizmann Group. The principal business activity of the company is power generation from renewable energy sources. Energy is generated from windmills and transmitted through Government owned grids and/or state utilities. Revenue is generated from the sale of wind power to state utilities and sale of power to private companies.. Additional revenue is also generated from sale of RECs (Renewable Energy Certificates). The 7 wind power plants are located in Maharashtra, Tamil Nadu and Andhra Pradesh - with aggregate installed capacity of 38.55 MW.



KEY FINANCIAL INDICATORS : (CONSOLIDATED FINANCIALS)

	31.3.2018 Audited	31.3.2019 Audited
Total Operating Income (Rs. Cr)	40.30	35.86
EBITDA (Rs. Cr)	11.92	7.40
PAT (Rs. Cr)	(3.71)	(11.52)
Tangible Networth (Rs. Cr)	64.57	29.92
Total Debt:TNW (Times)	1.13	2.87
Current Ratio (Times)	0.89	0.59

KEY COVENANTS OF INSTRUMENTS/FACILITIES TO BE RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY, IF ANY: NA

Rating History for the last three years:

Sl. No.	Facility	Current Rating (Mar 2020)			Rating History		
		Type	Amount (Rs. Crs)	Rating	Mar 2020	Jan 2018	Dec 2016
1	Fund based				BWR BB+/Stable		
	Term Loan- 1	Long Term	29.05*	BWR BBB-/Stable	Issuer Not Cooperating	BWR BBB-/Stable	BWR BBB-/Stable
	Term Loan-2		5.26*	Upgraded	Downgraded	Reaffirmed	Reaffirmed



			34.31	INR Thirty Four Crores and Thirty One Lakhs Only			

*Outstanding

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)

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Annexure I (Karma Energy Ltd.) Details of Rated Bank Facilities

Bank	Name of Facility	Nature of Facility	Rated Amount (Rs.in Cr.)
HDFC Bank	Term Loan-1	Fund Based-Long Term	29.05*
	Term Loan-2		5.26*
		Total	34.31

*Outstanding

Rupees Thirty Four Crores and Thirty One Lakhs Only



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