

Rating Rationale

December 16, 2024 | Mumbai

Kanohar Electricals Limited

Ratings reaffirmed at 'CRISIL BBB+/Stable/CRISIL A2'

Rating Action

Total Bank Loan Facilities Rated	Rs.248 Crore
Long Term Rating	CRISIL BBB+/Stable (Reaffirmed)
Short Term Rating	CRISIL A2 (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL BBB+/Stable/CRISIL A2' ratings on the bank facilities of Kanohar Electricals Ltd (KEL).

The rating reflects the established market position of the company driven by the extensive industry experience of its promoters and its healthy financial risk profile. These strengths are partially offset by moderate, but improving, scale of operations and Working capital intensive operations.

Analytical Approach:

CRISIL Ratings has evaluated the standalone business and financial risk profiles of KEL.

Key Rating Drivers & Detailed Description

Strengths:

- **Established market position of the company:** The promoters have more than 4 decades of experience in the power transmission industry. On the back of their experience, the company has evolved into an EPC transmission company from a pure power products manufacturer and has also started undertaking projects for transmission lines and has produced a transformer of 500 MVA in fiscal 2024 and having multiple orders to be supplied in fiscal 2025. In Addition to this, company is the only India-origin company, selected by RDSO for Scoot transformers which is the new technology transformers, which will further support the business risk profile going forward. Further, customer profile is diversified as the company has worked for various state electricity boards (SEBs), public sector undertakings (PSUs) and private companies across India and has recently added orders from the Indian Railways to its portfolio. This has resulted in its operating income being expected to improve to Rs. 400-420 crores as evident with current fiscal performance of Rs. 198 crores till Sept'24 and is having order book of more than Rs. 690 crores which will support the revenue growth going forward.
- **Healthy financial risk profile:** KEL's capital structure has been at healthy level due to lower reliance on external funds yielding gearing of 0.2-0.3 time and low total outside liabilities to adj tangible net worth (TOL/ANW) of 0.6-0.7 time for year ending on 31st March 2025. As a result of no major debt funded capex expected in the medium term and limited reliance on its fund-based working capital facilities, the company's capital structure is expected to continue to remain comfortable over the medium term. Further, as a result of low reliance on debt, its debt protection measures are also expected to be at a healthy level over the medium term with interest cover to 7.5-8 times and net cash accruals to adjusted debt to 0.6-0.8 times in fiscal 2025 and further expected to improve over medium term.

Weaknesses:

- **Moderate scale of operations:** Though the company's operating income remain stagnant during fiscal 2024 and expected to grow by healthy rate of 15-20% in fiscal 2025, its scale of operations continues to remain moderate, constrained by intense competition from various organized and unorganized players in the industry. However, till sept'24 company booked revenue of Rs. 198 crores and expected to book revenue of Rs. 400-420 crores in fiscal 2024-25. Furthermore, having order book more than Rs. 690 crores which will provide the revenue visibility going forward. CRISIL believes, successful buildup of orderbook and its timely execution leading to sustained growth in its revenue will remain a key monitorable.
- **Working capital intensive operations:** Gross current assets are expected at 200-220 days in fiscal 2025, driven by inventory of 60-90 days and receivables of 90-110 days. Receivables tend to be high towards the end of the fiscal as the company has major EPC revenue booking in March. However, payments are realised within 40-60 days and are expected within the same range. Furthermore, a portion of receivables pertains to retention money. Nevertheless, the company has a price escalation clause in all its contracts, which mitigates the risk of any sharp fluctuation in input prices. The working capital cycle is supported by payables of 60-90 days along with bank limit and cash accrual. Improvement in the working capital cycle remains a key monitorable.

Liquidity: Adequate

Bank limit utilization is low at around 36 percent for the past twelve months ended September 24. Cash accruals are expected to be over Rs 30-35 crore which are sufficient against term debt obligation of Rs 1-2 crore over the medium term. In addition, it will act as a cushion to the liquidity of the company. Current ratios are healthy at 2.18 times on March 31, 2024. The promoters are likely to extend support in the form of equity and unsecured loans to meet its working capital requirements and repayment obligations. High or moderate cash and bank balance of around Rs. 40 crore as on March 31, 2024. Low gearing and moderate net worth support its financial flexibility and provides the financial cushion available in case of any adverse conditions or downturn in the business.

Outlook: Stable

CRISIL Ratings believes KEL will continue to benefit from the extensive experience of its promoters and established relationships with clients.

Rating sensitivity factors**Upward factors**

- Significant improvement in scale of operation and sustenance of operating margin between 10-11% leading to more than expected net cash accrual.
- Efficient working capital management leading to further improvement in financial risk profile and liquidity position.

Downward factors

- Decline in scale of operations/operating margins to below 7% leading to lower cash accrual.
- Large debt-funded capital expenditure or a substantial increase in working capital requirements adversely impacting liquidity and its financial risk profile.

About the Company

KEL was promoted by the late Mr Kanohar Lal Singhal in 1971. The company manufactures transformers and gas insulated switchgears. The product profile includes power generation, transmission transformers, industrial and special-purpose transformers. The company also executes turnkey contracts for power transmission projects. It has two manufacturing units at Meerut.

Key Financial Indicators

As on / for the period ended March 31		2024	2023
Operating income	Rs crore	304.51	313.48
Reported profit after tax	Rs crore	20.76	22.30
PAT margins	%	6.5	7.1
Adjusted Debt/Adjusted Net worth	Times	0.22	0.12
Interest coverage	Times	5.78	7.42

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Crore)	Complexity Levels	Rating Outstanding with Outlook
NA	Bank Guarantee	NA	NA	NA	167.00	NA	CRISIL A2
NA	Cash Credit	NA	NA	NA	23.00	NA	CRISIL BBB+/Stable
NA	Letter of Credit	NA	NA	NA	15.00	NA	CRISIL A2
NA	Working Capital Facility	NA	NA	NA	43.00	NA	CRISIL BBB+/Stable

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2024 (History)		2023		2022		2021		Start of 2021
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating

Fund Based Facilities	LT	66.0	CRISIL BBB+/Stable	--	25-10-23	CRISIL BBB+/Stable	01-11-22	CRISIL BBB+/Stable	29-01-21	CRISIL B /Stable(Issuer Not Cooperating)*	CRISIL BB+ /Stable(Issuer Not Cooperating)*
			--	--		--	12-09-22	Withdrawn (Issuer Not Cooperating)*		--	--
			--	--		--	28-03-22	CRISIL B /Stable(Issuer Not Cooperating)*		--	--
Non-Fund Based Facilities	ST	182.0	CRISIL A2	--	25-10-23	CRISIL A2	01-11-22	CRISIL A2	29-01-21	CRISIL A4 (Issuer Not Cooperating)*	CRISIL A4+ (Issuer Not Cooperating)*
			--	--		--	12-09-22	Withdrawn (Issuer Not Cooperating)*		--	--
			--	--		--	28-03-22	CRISIL A4 (Issuer Not Cooperating)*		--	--

All amounts are in Rs.Cr.

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

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	20	HDFC Bank Limited	CRISIL A2
Bank Guarantee	30	HDFC Bank Limited	CRISIL A2
Bank Guarantee	70	State Bank of India	CRISIL A2
Bank Guarantee	15	State Bank of India	CRISIL A2
Bank Guarantee	12	Axis Bank Limited	CRISIL A2
Bank Guarantee	20	Axis Bank Limited	CRISIL A2
Cash Credit	7	HDFC Bank Limited	CRISIL BBB+/Stable
Cash Credit	5	State Bank of India	CRISIL BBB+/Stable
Cash Credit	3	HDFC Bank Limited	CRISIL BBB+/Stable
Cash Credit	3	Axis Bank Limited	CRISIL BBB+/Stable
Cash Credit	5	Axis Bank Limited	CRISIL BBB+/Stable
Letter of Credit	5	State Bank of India	CRISIL A2
Letter of Credit	5	State Bank of India	CRISIL A2
Letter of Credit	5	Axis Bank Limited	CRISIL A2
Working Capital Facility	10	YES Bank Limited	CRISIL BBB+/Stable
Working Capital Facility	33	YES Bank Limited	CRISIL BBB+/Stable

Criteria Details

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating Criteria for Construction Industry](#)

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