September 29, 2021

Vikram Solar Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	210.00	324.01	[ICRA]A- (Stable), reaffirmed
Cash Credit	433.00	427.00	[ICRA]A- (Stable), reaffirmed
Non-fund Based Limits	1657.00	1525.00	[ICRA]A2+, reaffirmed
Unallocated	0.00	23.99	[ICRA]A- (Stable) / [ICRA]A2+, reaffirmed
Total	**2300.00**	**2300.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings continues to take into account the strong track record of Vikram Solar Limited (VSL) in the solar module manufacturing and EPC business and its adequate order book position of ~Rs. 3108 crore as on July 15,2021. The order book comprises large and reputed customers who provide revenue visibility in the near term. Further, ICRA positively takes note of the recently concluded capex undertaken to set up an additional 1 GW solar module manufacturing capacity in Chennai, Tamil Nadu, which is expected to support order execution. The ratings also consider the company's competitive cost structure and its consistently healthy capacity utilisation levels, which have resulted in healthy return on capital employed (RoCE). Additionally, the ratings also factor in the favourable business outlook for the domestic solar module manufacturers, driven by the strong policy thrust from the Government of India (GoI). The imposition of basic customs duty on imported solar PV cells and modules from April 2022, the requirement of procuring solar modules from suppliers included in Approved List of Module Manufactures (ALMM), and the production-linked incentive (PLI) for manufacturing high efficiency modules are likely to provide significant growth opportunities to the domestic manufacturers.

The ratings, however, are constrained by the company's moderate capitalisation and debt coverage indicators, with the total debt/OPBDITA remaining above 3.5x and interest coverage ratio below 2x. This is owing to the debt-funded capex over the years and the high reliance on working capital debt. Nonetheless, ICRA expects the debt metrics to improve over the medium term with growth in the scale of operations and profitability, following the commissioning of the new 1 GW facility. The ratings also are constrained by the exposure of VSL's profitability to volatility in the price spread between photovoltaic (PV) modules and cells, given that solar cells are largely imported and constitute a major portion of the company's cost structure. The ratings also consider the exposure to competition from other manufacturers and the high customer concentration risk with a single customer, NTPC Limited, accounting for 84% of the total pending order book of the company. While the strong credit profile of NTPC Limited limits the counterparty credit risk, any execution delays may affect the company's revenues and profitability, given the large size of orders.

The stable outlook reflects ICRA's expectation that VSL would be able to scale up its revenues in a timely manner, given the healthy order book position and the favourable outlook for domestic module manufacturers, while maintaining adequate profitability levels.

Key rating drivers and their description

Credit strengths

Established presence in solar module manufacturing and EPC business – VSL is an established player in the solar module manufacturing and EPC business, with an operational track record of over a decade. The current operational solar module manufacturing capacity stands at 1850 MW. ICRA also notes that the company has over the years increased its presence in the overseas market, which apart from providing a cushion against any slowdown in the domestic solar EPC contracts, demonstrates its technical competence to manufacture solar modules of superior efficiency. VSL's technical competence in the solar EPC segment, having commissioned several projects of varying complexity in the last ten years of its operations, and its strong execution capabilities, backed by its expertise in design and engineering of grid connected/off-grid solar PV projects, have helped it to generate healthy orders over the years.

Favourable demand outlook for domestic module manufacturers – The demand outlook for the domestic solar module manufacturers remains favourable over the medium term supported by the greater policy thrust towards domestic manufacturing by government. The imposition of BCD on imported cells and modules from April 2021, requirement of procuring solar modules from suppliers included in ALMM which presently features only domestic suppliers, announcement of PLI scheme for improving the cost competitiveness of domestic manufacturers and a strong order pipeline aggregating about 35-40 GW over the next three to five-year period from various schemes requiring the use of domestic modules are the key growth drivers for the sector.

Revenue visibility by virtue of adequate orders from reputed customers; recent capacity expansion to support execution– As on July 15, 2021, the pending EPC order book position of the company stood at Rs.3108 crore, which provides near-term revenue visibility. The company has registered consistent EPC order in-flows from NTPC Limited under Central Public-Sector Undertaking (CPSU) scheme, which has supported the revenues.

Healthy plant utilisation level results in healthy RoCE – VSL has maintained above 80% capacity utilisation levels at its module manufacturing units in the last few financial years. Healthy capacity utilisation levels result in a healthy RoCE, which stood at 15.70% in FY2021, an improvement from 11.21% in FY2020.

Credit challenges

Moderate capitalisation and debt coverage indicators – The capital structure of the company has remained moderately leveraged because of the regular debt-funded capital expenditure in the past coupled with the sizeable working capital loans. As on March 31, 2021, the company's gearing stood at 1.58 times, increasing from 1.40 times as on previous fiscal end and debt/OPDBDITA at more than 3.50 times. The debt coverage indicators have remained moderate, with interest coverage of below 2 times for the past three fiscals. The ability of the company to scale up its operations post the completion of ongoing capacity expansion and improve its leverage and coverage metrics remains important.

High working capital intensity– VSL's working capital intensity remains on a higher side on account of milestones linked payments in the EPC business, large year-end sales, and high inventory holding requirements. The same results in high reliance on working capital borrowings.

High customer concentration in pending order book – The order book position is highly concentrated, with NTPC Limited accounting for ~84% of the total order book position as on July 15,2021. The order book comprises a couple of large projects and any execution delays in those may affect the company's revenues and profitability.

Exposure of profitability to movement in solar cell prices – The profitability indicators remain exposed to volatility and price movements of solar cells, given that solar cells are largely imported and constitute a major portion of the company's cost structure.

Competition from other manufacturers – The domestic solar module manufacturing industry faces competition from imports, given the price advantage that the latter possess. While the Safe Guard Duty (SFG) on imports ended on July 30,2021, the implementation of Basic Customs Duty (BCD) of 25% on cells and 40% on modules from April 01,2022 is expected to improve the competitiveness of domestic module manufacturers against the imports to a large extent. Nonetheless, the risk of imports persists during the nine months window till the implementation of BCD. Moreover, given the significant policy push towards domestic manufacturing, the competition within the domestic manufacturing set-up is expected to increase, as evidenced from the announcement of capex plans by some of the larger players. Nevertheless, VSL's low-cost large-scale production provides the company with an edge over its competitors. Additionally, ICRA expects solar power project installations to remain significant, given the Government's focus on the sector.

Liquidity position: Adequate

The company's liquidity position is **adequate,** supported by growing scale of operations (following expansion of VSL's manufacturing facility), the presence of adequate order book and healthy profit levels. As on August 31, 2021, on a standalone basis, VSL had free cash of Rs 61.22 crore, encumbered cash of Rs 90.34 crore and undrawn fund-based working capital limits of Rs 54 crore, which provide adequate liquidity cushion. Given the recent capacity expansion, commensurate and timely enhancement in working capital limits remains important.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company is able to demonstrate significant scale up in revenues while maintaining healthy profitability levels. Specific credit metric that could trigger a rating upgrade is interest coverage greater than 3.5 times on a sustained basis.

Negative factors – Negative pressure on VSL's rating could arise if the company is unable to scale up its operations and improve the profitability in a timely manner, because of slowdown in execution of existing orders or lack of fresh orders. The company's inability to maintain TOL/TNW below 3 times on a sustained basis could also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated The list of companies that are consolidated to arrive at the rating are given in Annexure 2 below.

About the company

VSL, promoted by the Kolkata-based Vikram Group, is a solar photo voltaic (PV) module manufacturing company. The company started its commercial operations in September 2009 and has an 850 MW operational solar PV module capacity in its plants at the Falta Special Economic Zone (FSEZ) in West Bengal. It has recently set up an additional 1 GW PV module manufacturing capacity in Chennai, Tamil Nadu, which became operational in September 2021. In addition, VSL undertakes engineering, procurement, and construction (EPC) of solar power plants, and operates and sells power from a 10-MW solar power plant.

Key financial indicators (audited)

Parameter	Standalone		Consolidated	
	FY2020 (Audited)	FY2021 (Audited)	FY2019 (Audited)	FY2020 (Audited)
Operating Income (Rs. crore)	1,521.01	1,578.02	1,957.72	1,630.26
PAT (Rs. crore)	6.04	37.14	41.46	22.50
OPBDIT/OI (%)	9.24%	11.31%	9.19%	10.05%
PAT/OI (%)	0.40%	2.35%	2.12%	1.38%
Total Outside Liabilities/Tangible Net Worth (times)	3.18	3.06	3.12	3.36
Total Debt/OPBDIT (times)	3.77	3.76	3.31	3.23
Interest Coverage (times)	1.48	1.79	1.97	1.73

**PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; FY2021 consolidated financials were not available*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

SN	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding^ (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					29-Sep-2021	8-Jun-2020	30-May-2019	20-Sep-2018
1	Term Loans	Long Term	324.01	234.01	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Positive)
2	Cash Credit	Long Term	427.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Positive)
3	Non-fund Based Limits	Short Term	1525.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Unallocated	Long Term/Short Term	23.99	-	[ICRA]A- (Stable) / [ICRA]A2+	-	-	-

^ as on July 31,2021

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term, Fund based, Term loans	Simple
Long term, Fund based, Cash credit	Simple
Short term, Non-Fund based limits	Very Simple
Long/Short term, Unallocated	Not Applicable

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: 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	Long term, Fund based, Term loans	FY2013	-	FY 2032	324.01	[ICRA]A- (Stable)
NA	Long term, Fund based, Cash credit	-	-	-	427.00	[ICRA]A- (Stable)
NA	Short term, Non-Fund based limits	-	-	-	1525.00	[ICRA]A2+
NA	Long/Short term, Unallocated	-	-	-	23.99	[ICRA]A- (Stable) / [ICRA]A2+

Source: *VSL*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
VP Utilities & Services Private Limited	100.00%	Full Consolidation
VSL Green Power Private Limited	100.00%	Full Consolidation
Vikram Solar Foundation	100.00%	Full Consolidation
Vikram Solar Cleantech (P) Limited	100.00%	Full Consolidation
Vikram Solar GmbH	100.00%	Full Consolidation
Vikram Solar Pte. Limited	100.00%	Full Consolidation
Vikram Solar Us Inc.	100.00%	Full Consolidation

Note: The above entities have been considered as part of the consolidated financial statements of VSL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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