December 28, 2021

Vikram Solar Limited: Ratings downgraded; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	324.01	324.01	[ICRA]BBB, downgraded from[ICRA]A-; outlook revised to Negative from Stable
Cash Credit	427.00	427.00	[ICRA]BBB, downgraded from[ICRA]A-; outlook revised to Negative from Stable
Non-fund Based Limits	1525.00	1525.00	[ICRA]A3+, downgraded from [ICRA]A2+
Unallocated	23.99	23.99	[ICRA]BBB / [ICRA]A3+, downgraded from [ICRA]A- / [ICRA]A2+; outlook revised to Negative from Stable
Total	**2300.00**	**2300.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating downgrade takes into account the deterioration in Vikram Solar Limited's (VSL) liquidity due to its elevated receivable position and delays in securing adequate enhancement in working capital facilities to support the operations of its recently commissioned 1GW solar module manufacturing capacity in Chennai, Tamil Nadu. Consequently, there were devolvement in letter of credit (LC) and overdrawal in cash credit (CC) facilities with one of the bankers in VSL's consortium lending arrangement from November 29,2021, which were regularised on December 24,2021. The negative outlook on the long-term rating factors in the uncertainty over the company's ability to secure adequate and timely enhancement in the working capital limits, which is critical to scale up the operations in a profitable manner.

The ratings continue to be constrained by the company's moderate capitalisation and debt coverage indicators, with the total debt/OPBDITA remaining above 3.5x and the interest coverage ratio below 2x. This is owing to the debt-funded capex over the years and the high reliance on working capital debt. The ratings also consider the exposure of VSL's profitability to the 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 factor in the competition from other manufacturers and the high customer concentration risk with a single customer, NTPC Limited, accounting for 41% of the total pending order book of the company. While NTPC Limited's strong credit profile limits the counterparty credit risk, any execution delays may affect the company's revenues and profitability owing to the large size of the orders.

The ratings, however, continue to take into account VSL's established track record in the solar module manufacturing and EPC business and its adequate pending order book position of ~Rs. 3,130 crore as on November 30, 2021. The order book comprises large and reputed customers who provide revenue visibility in the near term. Further, ICRA 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 consistently healthy capacity utilisation levels and the favourable business outlook for 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 the 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.

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 1,850 MW. ICRA also notes that the company has over the years increased its presence in the overseas market, which provides a cushion against any slowdown in the domestic solar EPC contracts and also 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 domestic solar module manufacturers remains favourable over the medium term supported by the policy thrust towards domestic manufacturing by the government. The imposition of BCD on imported cells and modules from April 2021, the requirement of procuring solar modules from suppliers included in ALMM which presently features only domestic suppliers, the PLI scheme for improving the cost competitiveness of domestic manufacturers and a strong order pipeline of about 35-40 GW over the next three to five years from various schemes requiring the use of domestic modules are the key growth drivers for the sector.

Adequate orders from reputed customers provide revenue visibility; recent capacity expansion to support execution– As on November 30, 2021, the pending EPC order book position of the company stood at Rs. 3,130 crore, which provides near-term revenue visibility. The company has registered consistent EPC order inflows from NTPC Limited under the central public-sector undertaking (CPSU) scheme, which has supported the revenues.

Credit challenges

Deterioration in liquidity position as evident from recent irregularities in working facilities- The company's liquidity position has been impacted by its elevated receivable position (Rs 544.44 crore as on November 30,2021) and lack of adequate working capital limits for operating its enhanced solar module manufacturing capacity of 1 GW, set up under a new unit in Chennai, Tamil Nadu. This has led to devolvement in LCs and overdrawal in CC limit with one of the bankers in the consortium. These irregularities were observed from November 29, 2021 and were regularised on December 24,2021.

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 the ongoing capacity expansion and improve its leverage and coverage metrics remain important.

High working capital intensity– VSL's working capital intensity remains on the higher side on account of the milestone-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 company's pending order book is concentrated, with NTPC Limited accounting for ~41% of the total pending order book position as on November 30, 2021. The order book comprises 2-3 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 the volatility and price movements of solar cells as the 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 due to the latter's price advantage. While the safeguard duty (SFG) on imports ended on July 30,2021, the implementation of the 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-month window till the implementation of BCD. Moreover, given the significant policy push to domestic manufacturing, the competition within the domestic manufacturing set-up is expected to increase, as evident 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: Stretched

The company's liquidity position is **stretched,** evident from recent instances of overdrawals in cash credit limit and devolvement in letter of credit. As on December 18,2021, the cash credit facility was overdrawn by Rs 23.80 crore from one of the bankers. The company had Rs 69.31 crore of undrawn cash credit limits (inclusive of Rs 15 crore of interchangeability available from non-fund based limits) from the other lenders in the consortium, which were used to clear the irregularities on December 24,2021. The company's ability to improve is receivable position and secure commensurate and timely enhancement in the working capital limits remain critical from the liquidity perspective.

Rating sensitivities

Positive factors – Given the negative outlook, a rating upgrade is unlikely in the near term. The outlook could be revised to Stable if the company is able to improve its liquidity by improving the working capital cycle.

Negative factors – Negative pressure on VSL's rating could arise if the company is not able to improve its liquidity and secure adequate enhancement in its working capital limits in a timely manner.

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 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 at 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)

	Standalone		Consolidated	
Parameter	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
					28-Dec-2021	29-Sep-2021	8-Jun-2020	30-May-2019	20-Sep-2018
1	Term Loans	Long Term	324.01	234.01	[ICRA]BBB (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Positive)
2	Cash Credit	Long Term	427.00	-	[ICRA]BBB (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Positive)
3	Non-fund Based Limits	Short Term	1525.00	-	[ICRA]A3+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Unallocated	Long Term/Short Term	23.99	-	[ICRA]BBB (Negative) / [ICRA]A3+	[ICRA]A- (Stable) / [ICRA]A2+	-	-	-

^ as on July 31,2021

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term loans	Simple
Cash credit	Simple
Non-Fund based limits	Very Simple
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	Term loans	FY2013	-	FY 2032	324.01	[ICRA]BBB (Negative)
NA	Cash credit	-	-	-	427.00	[ICRA]BBB (Negative)
NA	Short term, Non-Fund based limits	-	-	-	1525.00	[ICRA]A3+
NA	Long/Short term, Unallocated	-	-	-	23.99	[ICRA]BBB (Negative) / [ICRA]A3+

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

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Vikram V
+91 40 4067 6518
vikram.v@icraindia.com

Tushar Bharambe
+91 22 6169 3347
tushar.bharambe@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

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

ICRA Limited

Registered Office

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

Branches