Vikram Solar Private Limited

December 13, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	310	310	[ICRA]A-(Positive) ; Reaffirmed Outlook revised from Stable
Non-fund based-Working Capital Facilities	940	940	[ICRA]A2+; Reaffirmed
Total	**1250**	**1250**	

Rating action

ICRA has reaffirmed the [ICRA]A- (pronounced ICRA A minus) rating assigned to the Rs. 310-crore[1] cash credit facilities of Vikram Solar Private Limited (VSPL)[2]. The outlook on the rating has been revised from Stable to Positive. ICRA has also reaffirmed the [ICRA]A2+ (pronounced ICRA A two plus) rating assigned to the Rs. 940.00-crore short-term non-fund based bank facilities of VSPL.

Rationale

The revision in the long-term rating outlook factors in VSPL's leading position in the domestic solar PV industry, with a solar module manufacturing capacity of ~1 GW as on date, and the strong order book, as indicated by ~Rs 1,740-crore of module supply and EPC contracts in place. A large scale, in ICRA's opinion, would help the company remain cost competitive as compared to its domestic as well as global peers. ICRA notes that the company is increasing its presence in the roof-top solar segment, export module sales and domestic direct module sales, which would provide a cushion against any slowdown in solar EPC contracts. However, a lower proportion of income from the EPC segment would impact its operating profitability to an extent. The ratings continue to favourably factor in a healthy long-term demand outlook for solar photo voltaic modules and EPC contracts in the country, driven by the Government's target of setting up 100 gigawatts (GW) of solar power generation capacity by 2022.

VSPL's technical competence in the solar EPC segment, having commissioned a number of projects of varying complexity in the last eight years of its operations, is also a credit positive. The company's strong execution capabilities backed by its expertise in design and engineering of grid connected/off-grid solar PV projects, has helped it in generating healthy order additions over the years. Moreover, such orders being secured from large reputed customers reduce counterparty risks, and are expected to ensure timely realisation of receivables. The ratings further reflect the entity's high capacity utilisation level, resulting in healthy return on capital employed (RoCE), and the fiscal benefits that the company is entitled to, being located within an SEZ. However, ICRA takes cognizance of the increasing competitive intensity in the market, particularly from the upcoming module manufacturing capacities, which are expected to be cost competitive.

The ratings are, however, tempered by VSPL's working capital intensive business, which is a result of its large receivables and long inventory-holding days. ICRA notes that in order to mitigate any raw material availability-related risk, VSPL maintains a large inventory of solar PV cells against the firm fixed price module orders in its hands. Such an arrangement locks up VSPL's working capital, and given the high growth registered by the company, it has resulted in negative fund flow from operations in the last three years. Also high working capital borrowing, along with recent debt-funded capex,

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

has seen gearing remaining at around 2.0x at the end of FY2017, notwithstanding healthy accretion to reserves. With some slowdown in growth anticipated, ICRA expects a reduction in VSPL's incremental working capital requirement in the current fiscal. This, coupled with steady accruals, is expected to result in a correction of the gearing by the end of the current fiscal. ICRA notes that VSPL provides a warranty of up to 25 years on the performance of its solar modules. The ratings are tempered by the risk of future devolvement of such warranties, which can lead to large cash outflows, thereby impacting the financial profile of the company. However, risks arising out of the same are mitigated to an extent by the company's strong quality control measures in place, its expanding research and development set-up and the comprehensive acceptance tests undertaken by the company on its solar modules. Going forward, VSPL's ability to maintain adequate orders for its large capacity and execute such orders profitably in a timely manner while maintaining adequate liquidity would be the key rating sensitivities.

Outlook: Positive

ICRA believes VSPL would continue to register a strong growth with healthy margins, going forward. Moreover, an improvement in its working capital position would lead to a reduction in the overall working capital debt of the company, thereby leading to a correction in VSPL's capital structure and debt coverage indicators. The outlook may be revised to 'Stable' if the anticipated improvement in debt coverage indicators does not materialise and revised to 'Negative' if there is a sharp slowdown in order inflow, or if a stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Established business position - VSPL has an established market position in the domestic solar power industry, post commissioning of the large scale grid-connected solar projects.

Healthy order book position – The company's order book position continues to remain strong and diversified despite the recent slowdown in the domestic solar power sector.

Healthy plant utilisation level, resulting in healthy return on capital employed (RoCE) – VSPL has maintained almost 100% capacity utilisation levels at its module manufacturing units in the last few financial years; the healthy capacity utilisation levels result in a good level of RoCE.

Strong customer profile – VSPL's customer profile remains strong having commissioned large solar power projects for NTPC Limited, ONGC Limited, and the Indian Space Research Organization, etc.

Favourable long-term demand outlook for solar photo voltaic modules and EPC contracts – VSPL's long-term demand outlook remains favourable, given the Government of India's thrust on developing 100 GW of solar capacity in India by 2022.

Credit challenges

High working capital intensity in business – VSPL's high working capital intensity impacts its overall liquidity position; the company's strong growth, coupled with its high working intensity, has resulted in the company registering negative fund flow from operations in the last three years.

Aggressive capital structure compared to the rating category – Large debt-funded capital expenditure coupled with large working capital loans has resulted in an aggressive capital structure of the company as compared to its rating category; debt coverage indicators remain at moderate levels.

Rising market competition – The competitive industry in the domestic solar PV industry is increasing and as a result new entities coming into the market as well as existing manufacturers are increasing their capacities. Nevertheless, VSPL's low cost of production and large scale provides the company an edge over its competitors. Additionally, ICRA expects solar power project installations to remain adequate, given the Government's focus on the sector

Risk of devolvement of warranties – VSPL is exposed to the risk of future devolvement of warranties that it has provided to its customers; risks arising out of the same are mitigated to an extent by comprehensive acceptance tests undertaken by the company on its solar modules

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

Vikram Solar Private Limited (VSPL), promoted by the Kolkata-based Vikram Group, is a solar photo voltaic (PV) module manufacturing company. The company started commercial operations in September 2009 and as on date has 1000 MW of solar PV module capacity in its plants located at the Falta Special Economic Zone (FSEZ) in West Bengal. In addition, VSPL undertakes Engineering, Procurement, and Construction (EPC) of solar power plants and also operates and sells?? power from a 10 MW solar power plant.

VSPL registered a profit after tax of Rs 108.9 crore on the back of an operating income of Rs 1640.94 crore in FY2017. In FY2016, the company registered a profit after tax of Rs 53.82 crore on the back of an operating income of Rs 903.65 crore.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	903.7	1,640.9
PAT (Rs. crore)	53.8	108.9
OPBDIT/ OI (%)	11.4%	10.2%
RoCE (%)	17.3%	19.3%
Total Debt/ TNW (times)	2.06	2.08
Total Debt/ OPBDIT (times)	4.64	4.25
Interest Coverage (times)	2.84	3.08
NWC/ OI (%)	50%	38%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2018)	Chronology of Rating History for the past 3 years

		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating December 2017	Date & Rating in FY2017 November 2016
1	Cash Credit	Long Term	310	NA	**[ICRA]A- (Positive)**	**[ICRA]A- (Stable)**
2	Non Fund based-Working Capital Facilities	Short Term	940	NA	**[ICRA]A2+**	**[ICRA]A2+**

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	Cash Credit	NA	NA	NA	310	[ICRA]A- (Positive)
NA	Non-fund based Working Capital Facilities	NA	NA	NA	940	[ICRA]A2+

Source: Vikram Solar Private Limited

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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.

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