May 30, 2019

Vikram Solar Limited: Ratings reaffirmed at [ICRA]A-/A2+; outlook revised to Stable

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	210	210	[ICRA]A- Reaffirmed; outlook revised to Stable from Positive
Cash Credit	433	433	[ICRA]A- Reaffirmed; outlook revised to Stable from Positive
Non-fund based-Working Capital Facilities	1657	1657	[ICRA]A2+; Reaffirmed
Total	**2300**	**2300**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the long-term rating outlook factors in the lower-than-expected improvement in Vikram Solar Limited's (VSL, erstwhile Vikram Solar Private Limited) debt coverage indicators. This was on account of a rise in the company's interest and financial charges against the increased quantum of working capital debt required during the year to fund the execution of a large engineering, procurement, construction (EPC) contract. While the working capital pressure eased in the last quarter of FY2019, leading to lower working capital debt and an improvement in liquidity, the overall coverage indicators remained subdued in FY2019. Going forward a healthy order book position, coupled with the safeguard duty on import of solar cells and modules would benefit VSL's accruals from the business. However, the overall capital structure and debt coverage indicators are unlikely to register any material improvement in the near term, from the levels of FY2019.

The ratings continue to factor in VSL's leading position in the domestic solar PV industry, with a solar module manufacturing capacity of ~1 GW as on date, and the healthy order book, as indicated by ~Rs. 1,840 crore of confirmed module supply and EPC contracts. The company's position is expected to benefit from the safeguard duty on import of solar cells and modules into India as the imposed duty has improved VSL's cost competitiveness against imported equipment. Moreover, a large scale helps the company remain cost competitive compared to its domestic as well as global peers. ICRA also notes that the company is increasing its presence in the roof-top solar segment, export module sales and domestic direct module sales, which, apart from providing a cushion against any slowdown in the solar EPC contracts, would also result in an improvement in the working capital position. The ratings also favourably factor in a healthy long-term demand outlook for solar photo-voltaic modules and EPC contracts in the country.

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

The ratings are, however, tempered by VSL's working capital intensive business, because of its large receivables and long inventory holding days. High working capital borrowings, along with debt-funded capex, resulted in VSL's gearing remaining at high levels, notwithstanding a healthy accretion to reserves. However, a steady accrual is expected to result in some correction of the gearing, going forward. ICRA notes that VSL 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, its expanding research and development set-up and the comprehensive acceptance tests undertaken on its solar modules. Going forward, VSL's ability to book 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: Stable

ICRA believes that VSL with its large order book would continue to register a healthy volume growth with adequate margins. The outlook may be revised to Positive if the company is able to register a sharp improvement in its capital structure and debt coverage indicators, while maintaining its growth trajectory. The outlook may be revised to Negative if there is a sharp slowdown in order inflow, or if a stretch in the working capital cycle weakens its liquidity.

Key rating drivers

Credit strengths

Established business position - VSL 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 as on date, which provides revenue visibility for about a year.

Healthy plant utilisation level, resulting in healthy return on capital employed (RoCE) – VSL has maintained 80-100% capacity utilisation levels at its module manufacturing units in the last few financial years. Healthy capacity utilisation levels result in a healthy level of RoCE.

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

Favourable long-term demand outlook for solar photo voltaic modules and EPC contracts – VSL's long-term demand outlook remains favourable, given the Government of India's thrust on developing solar capacity in India. The imposition of safeguard duty on import of solar cells and modules benefits VSL's order book position.

Credit challenges

Aggressive capital structure and suppressed debt coverage indicators– Large debt-funded capital expenditure coupled with large working capital loans resulted in an aggressive capital structure of the company. Debt coverage indicators remained at moderate levels.

High working capital intensity in business – VSL's high working capital intensity impacts its overall liquidity position.

Rising market competition – Competition in the domestic solar PV industry has increased because of new entities entering the market as well as existing manufacturers increasing their capacities. Nevertheless, VSL's low cost of production and large scale provide the company with 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 – VSL 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.

Liquidity position

VSL's liquidity position is expected to improve in FY2020 because of a better revenue mix with higher quantum of module sales in the domestic and export markets. VSL's overall liquidity position receives support from unutilised bank lines.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the standalone financials of VSL.

About the company

Vikram Solar Limited (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 as on date has 1,000 MW of solar PV module capacity in its plants at the Falta Special Economic Zone (FSEZ) in West Bengal. 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.

As per provisional results, VSL registered a profit after tax of Rs. 51.1 crore on an operating income of Rs. 1,949.9 crore in FY2019. In FY2018, the company registered a profit after tax of Rs. 43.3 crore on an operating income of Rs. 1,894.4 crore.

Key Financial Indicators (Audited)

	FY2017	FY2018	FY2019 (Provisional)
Operating Income (Rs. crore)	1693.5	1894.4	1949.9
PAT (Rs. crore)	85.5	43.3	51.1
OPBDIT/ OI (%)	9.27%	7.17%	9.95%
RoCE (%)	18.64%	12.54%	15.82%
Total Debt/ TNW (times)	2.5	2.1	1.8
Total Debt/ OPBDIT (times)	4.5	5.2	3.4
Interest coverage (times)	2.9	2.0	2.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating May 2019	Chronology of Rating History for the past 3 years: Date & Rating in FY2019 September 2018	Date & Rating in FY2018 December 2017	Date & Rating in FY2017 November 2016
1	Term Loan	Long Term	210	188	[ICRA]A- (Stable)	[ICRA]A- (Positive)		
2	Cash Credit	Long Term	433	NA	[ICRA]A- (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)
3	Non-Fund based- Working Capital Facilities	Short Term	1657	NA	[ICRA]A2+	[ICRA]A2+	[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	Term Loan	2013-2017	9.5%	FY2020-FY2032	210	[ICRA]A- (Stable)
NA	Cash Credit	NA	NA	NA	433	[ICRA]A- (Stable)
NA	Non-fund based Working Capital Facilities	NA	NA	NA	1657	[ICRA]A2+

Source: Vikram Solar 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.

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.

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