

Vikram Solar Private Limited

September 20, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	0	210	[ICRA]A- (Positive); Assigned
Cash Credit	310	433	[ICRA]A- (Positive); Assigned/Outstanding
Non-fund based-Working Capital Facilities	940	1657	[ICRA]A2+; Assigned/Outstanding
Total	1250	2300	

Rating action

ICRA has assigned the long-term rating of [ICRA]A- (pronounced ICRA A minus) to Rs 210-crore term loans and Rs 123-crore¹ cash credit facilities of Vikram Solar Private Limited (VSPL)². The outlook on the long-term rating is Positive. ICRA has also assigned the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) to Rs 717-crore non-fund based-bank facilities of VSPL.

ICRA has the long-term rating of [ICRA]A-, with a Positive outlook, outstanding for Rs. 310-crore cash credit facilities of VSPL. ICRA also has the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) outstanding for Rs. 940.00-crore short-term non-fund based bank facilities of VSPL.

Rationale

The assigned ratings factor 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 healthy order book, as indicated by ~Rs 1,400-crore of module supply and EPC contracts in place. The company's position is expected to benefit from the recently imposed safeguard duty on import of solar cells and modules into India, as the imposed duty is likely to improve VSPL's cost competitiveness against imported equipment. Moreover, a large scale, would help the company remain cost competitive as compared to its domestic as well as global peers, in ICRA's opinion. 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 would provide a cushion against any slowdown in solar EPC contracts. However, a declining trend in income from the EPC segment would adversely 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

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

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. High growth registered by the company, till FY2017, has resulted in negative fund flow from operations leading to high working capital borrowing, which along with recent debt-funded capex, has resulted in VSPL's gearing remaining at around 2.0x at the end of FY2018, notwithstanding healthy accretion to reserves. Nevertheless, steady accrual 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. The recent imposition of safeguard duty on import of solar cells and modules would also benefit VSPL's order book position

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 sales power from a 10 MW solar power plant.

VSPL registered a profit after tax of Rs 43.31 crore on the back of an operating income of Rs 1894.43 crore in FY2018. In FY2017, the company registered a profit after tax of Rs 85.53 crore on the back of an operating income of Rs 1693.54 crore.

Key Financial Indicators (Audited)

	FY 2016	FY 2017	FY2018
Operating Income (Rs. crore)	902.2	1693.5	1894.4
PAT (Rs. crore)	52.4	85.5	43.3
OPBDIT/ OI (%)	11.25%	9.27%	7.17%
RoCE (%)	17.05%	18.64%	12.54%
Total Debt/ TNW (times)	2.1	2.5	2.1
Total Debt/ OPBDIT (times)	4.7	4.5	5.2
Interest coverage (times)	2.8	2.9	2.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating September 2018	Date & Rating in FY2018 December 2017	Date & Rating in FY2017 November 2016	
1 Term Loan	Long Term	210	210	[ICRA]A- (Positive)			
2 Cash Credit	Long Term	433	NA	[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+	

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%	FY2019- FY2032	210	[ICRA]A- (Positive)
NA	Cash Credit	NA	NA	NA	433	[ICRA]A- (Positive)
NA	Non-fund based Working Capital Facilities	NA	NA	NA	1657	[ICRA]A2+

Source: Vikram Solar Private Limited

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das

+91 33 7150 1104
kaushikd@icraindia.com

Soumyajyoti Basu

+91 33 7150 1109
soumyajyoti.basu@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:

+91-124-2866928 (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

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents