

MI Solar (India) Private Limited

October 05, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based– Term Loan	3.50	[ICRA]BB- (Stable); Assigned
Fund-based–Cash Credit	2.20	[ICRA]BB- (Stable); Assigned
Total	5.70	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]BB- (pronounced ICRA double B minus) to the Rs. 5.70-crore¹ fund-based facilities of MI Solar (India) Private Limited (MI Solar or the company)². The outlook on the long-term rating is Stable.

Rationale

The ratings favourably factor in the extensive experience of the promoters of the Madhav Group in the infrastructure and energy industry with substantial operational support provided by the holding company, Madhav Infra Projects Private Limited (MIPL) to MI Solar. The ratings also draw comfort from the presence of long-term power purchase agreements (PPAs) for all the five small solar power plants set up by the company under the developer-cum-operator (OPEX) basis.

However, the ratings are constrained by the company's small scale of operations with high dependence on few clients, mainly Group companies for revenue generation; its leveraged capital structure and weak debt coverage indicators. The rating takes note of the high working capital intensity of its operations due to an elongated receivable position, which impacts the liquidity as is evident from the higher utilisation of its working capital limits. The ratings further remain constrained by vulnerability of the company's operating profitability to volatility in the prices of solar modules given the fixed price nature of contracts. Moreover, MI Solar remains exposed to intense competition from both organised and unorganised players in the solar industry.

Outlook: Stable

ICRA believes MI Solar will continue to benefit from the extensive experience of its promoters in execution of solar EPC projects. The outlook may be revised to Positive if substantial growth in revenue and profitability and better working capital management strengthens the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major debt-funded capital expenditure, or stretch in the working capital cycle, weakens liquidity.

¹100 lakh = 1 crore = 10 million

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

Key rating drivers

Credit strengths

Extensive experience of promoters in the infrastructure and energy industry - The key promoters of the Madhav Group, Mr. Ashok Khurana and Mr. Amit Khurana, through their earlier venture, MSK Projects India Ltd (MSK), have over 30 years of experience in executing various projects in the construction sector on a build, operate and transfer (BOT) and engineering, procurement and commissioning (EPC) basis. They have vast experience in handling relatively large-sized projects and have demonstrated a satisfactory track record in timely execution of projects in various segments of the construction sector. The promoters have also demonstrated their project execution capability in the renewable energy segment, particularly in solar power over the past five years, through execution of projects on an EPC and OPEX basis.

Support from the holding company, MIPL - MI Solar was set up as an EPC arm of the MIPL for executing its solar projects. MIPL holds ~51% stake in MI Solar and provides substantial operational assistance to the company. MIPL is its main supplier of solar modules and accounted for 81% of MI Solar's total purchases in FY2018. MIPL was also the largest customer accounting for 80% of MI Solar's total sales in FY2018.

Long-term PPAs in place for all five solar power plants set up under the OPEX model - MI Solar has developed five solar rooftop projects till FY2018 under the OPEX model, all of which have been for different Government agencies and educational institutions. It has entered a 25-year PPA with each of the clients and is getting a regular power generation income from the same.

Credit challenges

Small scale of operations; high dependence on Group companies for revenue generation - MI Solar commenced commercial operations in FY2017 and reported an operating income (OI) of Rs. 6.62 crore, of which Rs. 6.56 crore was through EPC projects and Rs. 0.06 crore was power generation income from the three projects set up under the OPEX model. The company's OI increased by 17% in FY2018 to Rs. 7.75 crore, of which Rs 7.21 crore were EPC revenues and the remaining were power generation income. It remains a modest-sized player in the intensely competitive solar EPC industry. Its client concentration has remained high with around 80% of the EPC revenues being derived from Group companies, chiefly MIPL.

Financial profile characterised by leveraged capital structure and weak debt coverage indicators - The company's capital structure remained leveraged with a gearing of 2.91 times as on March 31, 2018. The total debt stood at Rs. 10.13 crore, comprising term loans of Rs. 3.49 crore for setting up solar projects under the OPEX model, cash credit limit of Rs. 2.20 crore, and working capital demand loan (WCDL) of Rs. 4.45 crore. Given the high debt levels, its debt coverage indicators remained moderate with the interest coverage at 1.3 times, TD/OPBDITA at 6.80 times and NCA/TD of 4% in FY2018.

High working capital intensity of operations impacting the liquidity - The company's working capital intensity stood high at 112% in FY2018, increased from 81% in FY2017, on account of high receivable position as on year-end. Its receivables tend to be on a higher side, mainly due to high proportion of EPC sales wherein most of the receipts happen after completion of the projects. Additionally, in case of OPEX projects, the recovery of dues from two of the five clients remained sluggish in FY2018 leading to high year-end receivables. Given the elongated receivables, MI Solar's liquidity position remained tight as evidenced from 91% average monthly utilisation of cash credit limit during the 13 months' that period ended on July 2018.

Vulnerability of profitability to adverse fluctuation in input prices - Given the fixed-price nature of the contracts, the company's profitability remains exposed to unfavourable movements in the input prices, mainly the solar modules. Nonetheless, the risk is mitigated to some extent given the small size of projects and the relatively short execution cycle.

Stiff competition in the domestic solar industry - The company faces intense competition from many organised players in installing solar power plants, which limits its pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins.

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:

Incorporated in February 2016, MI Solar is a part of the Vadodara-based Madhav Group. It is involved in setting up rooftop/ground mount solar power plants. The Madhav Group is promoted by Mr. Ashok Khurana and his son Mr. Amit Khurana, who were the erstwhile promoters of the construction major, MSK Projects India Ltd (MSK) – established in 1976, which was taken over by the Welspun Group [now known as Welspun Enterprises Limited (WEL) in 2010. MI Solar undertakes development of solar power plants under EPC basis, where the ownership lies with the client and on an OPEX basis, the ownership lies with MI Solar.

In FY2018, the company reported a net profit of Rs. 0.12 crore on an OI of Rs. 7.75 crore, as compared to a net profit of Rs. 0.28 crore on an OI of Rs. 6.62 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	6.62	7.75
PAT (Rs. crore)	0.28	0.12
OPBDIT/OI (%)	11.30%	19.23%
RoCE (%)	16.53%	11.23%
Total Debt/TNW (times)	2.23	2.91
Total Debt/OPBDIT (times)	9.80	6.80
Interest coverage (times)	3.10	1.38

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 October 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Term Loan	3.50	3.49	[ICRA]BB-(Stable)	-	-	-
2	Cash Credit	2.20	-	[ICRA]BB-(Stable)	-	-	-

* Outstanding as on March 31,2018

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	March 2017	NA	March 2027	3.50	[ICRA]BB- (Stable)
NA	Cash Credit	NA	NA	NA	2.20	[ICRA]BB- (Stable)

Source: MI Solar (India) Private Limited

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