

Swelect Energy Systems Limited

October 10, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund Based Facilities	50.0	[ICRA]A-(Stable); Assigned
Term-Loans	23.35	[ICRA]A-(Stable); Assigned
Short Term Non-Fund Based Facilities	25.0	[ICRA]A2+; Assigned
Long/Short term Sub Limit Facilities **	(10.0)	[ICRA]A-(Stable)/[ICRA]A2+; Assigned
Short term Sub Limit Facilities ***	(50.0)	[ICRA]A2+; Assigned
Long Term/ Short Term Unallocated	36.65	[ICRA]A-(Stable)/[ICRA]A2+; Assigned
Total	135.00	

*Instrument details in Annexure -1

** Sublimit of Rs 25 crore non-fund-based facilities

*** Sublimit of Rs 50 crore long-term fund-based facilities

Rating action

ICRA has assigned a long-term rating of [ICRA]A- (pronounced ICRA A minus) for the Rs. 50-crore¹ fund-based facilities and Rs. 23.35-crore term-loan facilities of Swelect Energy Systems Limited (Swelect)². ICRA also has assigned a short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) for the Rs 25.0-crore non-fund-based facilities and Rs 50-crore short-term sublimit facilities of Swelect. ICRA also further assigned a rating of [ICRA]A-/ [ICRA]A2+ for the Rs 10-crore sublimit facilities and Rs. 36.65-crore unallocated limits of Swelect. The outlook on the long-term rating is Stable.

Rationale

The assigned ratings favourably factor in the established position of the Swelect in the solar power industry with presence across value chain in manufacturing of solar photo voltaic (PV) modules, solar power generating systems (SPGS), module mounting structures (MMS) and implementation of Turnkey Solar EPC (together referred as solar division). In addition, Swelect is also an Independent Power Producer (IPP) supplying power to Government utilities and Institutions. Further, the ratings favourably factor in the strong liquidity position on the back of substantial investments made in the form of mutual funds and fixed deposits. The ratings also positively consider the continued investment in various solar power/renewable power assets, currently aggregating to 43.97 MW, with long-term PPA with various companies like Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO), Solar Energy Corporation of India (SECI) and Chamundeswari Electricity Supply Company (CESC Mysore), ensuring steady stream of future cash flows. The ratings also draw comfort from the favourable demand trends for the company's casting division in FY2019, which is expected to support the profitability in the near term.

The ratings are, however, constrained by the Swelect's small scale of operations in the solar PV module manufacturing operations, which is characterised by intense competition from both domestic and foreign players. Further, Swelect's profitability metrics remain moderate because of subdued performance in the company's solar division. With continued uncertainties in market and regulatory environment about solar tenders, net metering, recently imposed safeguard duty, the performance in these divisions is expected to remain subdued in the medium term as well. The profitability also

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

remains vulnerable to raw material price fluctuation risk and forex risk. Nonetheless, presence of a natural hedge through the casting segment exports mitigates this risk to an extent. The rating is also constrained by the risks inherent to the solar PV module manufacturing and solar IPP segment such as warranty risks, climatic risks, module performance etc. Nonetheless, an experienced managerial team and strict quality assurance mitigate this risk to an extent.

For arriving at the ratings, ICRA has taken into consideration the consolidated view of Swelect Energy System Limited and its subsidiaries (together referred as “Swelect”), given the operational and financial linkages.

Outlook: Stable

The Stable outlook assigned reflects ICRA’s expectation that the cash flow from the Swelect’s solar power assets will support its operational profile, despite expected subdued performance in solar division in the medium term. The outlook may be revised to Positive, if the company’s manufacturing and contracting operations turn profitable, thereby improving the overall profitability of the company. Further, the outlook may be revised to Negative, if the performance of the solar division deteriorates significantly, resulting in lower profitability, or if any major inorganic expansion weakens the liquidity profile of the company.

Key rating drivers

Credit strengths

Established presence in the solar power segment – Swelect is an established player in the solar Power sector with experience over a decade in the solar segment (through its HHV module manufacturing division which was acquired in FY2013). The installed capacity of the solar module manufacturing unit was enhanced to 110 MW in FY2019. The company has established diverse set of reputed clientele for both module and EPC segment comprising of reputed PSUs, educational institutions etc. Also, the presence of the company in the casting segment and various value chains on solar segment lends stability to the cash flows to an extent.

Strong liquidity position – The company has a strong liquidity profile, with net-cash position of around Rs 212 crore (investments in mutual funds/FD after adjusting for debt) as on March 31, 2018. This is due to the fact that the company had retained the major portion of consideration received on account of sale of the erstwhile UPS business in FY2013 for a profit of Rs 615.12 crore. With the strong liquid asset profile, the company has been strategically investing in module manufacturing, Solar IPP assets, thereby resulting in reduction of liquid assets over the years.

Swelect’s solar power portfolio ensures steady cash flows – The company has long-term PPA for its solar and wind power plants totalling to 43.97 MW located across various places in Tamil Nadu, Karnataka and Andhra Pradesh. For these projects major counterparties are TANGEDCO (14MW), SECI (10MW), CESC Mysore (10 MW) in addition to others such as Integral Coach Factory (ICF), Chennai Metro Rail Limited (CMRL) and Hindustan Petroleum Corporation (HPCL). For the solar projects, the weighted average tariff is ~Rs 5.0 per unit and the weighted average CUF works out to around 17% in FY2018. The weighted average tariff level may improve further if the Company is able to successfully renegotiate the tariff for the 10 MW solar power plant in Karur, Tamil Nadu. The company is also planning to add further solar assets to its portfolio under third party power sale model.

Favourable long-term demand outlook for solar modules– The long-term demand outlook for solar PV module remains favourable supported by improved tariff competitiveness as compared to conventional energy sources and policy support from Government of India such as RPO norms, implementation of safeguard duty, renewable energy incentives. Further, the government is focused on improving the domestic solar PV manufacturing capacity. In India, with 23 GW of capacity installed as on June, 30 2018, the estimated incremental capacity installation required will be 41 GW by FY2022 (RPO at 16%), thereby resulting in favourable long-term demand outlook in Solar module and EPC segment.

Credit challenges

Solar PV module segment characterised by intense competition - With solar module manufacturing capacity of 110 MW, Swelect is a small player in the domestic solar industry, with an estimated capacity of more than 8 GW. The company faces intense competition from large domestic and Chinese module manufacturers having a better cost structure due to their large scale of operations and relatively longer track record in module manufacturing business.

Continued weak profitability in the solar division (excluding solar IPP) – The company’s operations in the solar division (excluding solar IPP) has been loss making for the past three years. The profitability in the solar PV module and solar projects including EPC remained subdued on account of low capacity utilisation, intense competition from domestic player and Chinese players. With low order book position, and subdued demand outlook in the near-term, the profitability of these segments is expected to remain stretched in the near term.

Vulnerability of profitability to adverse fluctuation in raw material prices – As a major part of the raw materials for module manufacturing is imported, the profitability of the company remains exposed to fluctuations in raw material prices. The company’s profitability also remains vulnerable to forex fluctuations. However, at the Group level, the risk is mitigated because of natural hedge from casting segment exports.

Operations exposed to inherent risks of the solar industry – As with any player in the solar module manufacturing, EPC and IPP segment, the company’s operations are exposed to risks pertaining to devolvement of warranties, climatic risk, performance risk on account of deterioration in CUF levels etc. However, comfort can be drawn from the extensive module testing, quality assurance and performance being monitoring carried out by the company.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Solar Power Producers](#)

About the company

Swelect Energy Systems Limited (formerly known as Numeric Power Systems Limited) is a major Solar Power Systems company with a strong presence in solar PV module manufacturing, solar power generating systems and solar power EPC segment. The company was one of the top players in the UPS business in India and this division was sold in FY 2013. Now, Swelect is a Tier 1 Solar PV Module Manufacturer globally and is an established player in the Solar EPC segment as well. The company has subsidiaries which has long-term PPA’s for selling Solar Power to Government utilities and a subsidiary which is engaged in the manufacturing and trading of iron, steel and investment castings catering to both export and domestic customers. In the Module manufacturing segment, Swelect is a mid-sized Solar manufacturer with a current capacity of 110 MW/p.a. The Group also has an installed capacity of 43.97 MW representing solar and wind assets exporting power to various counterparties such as SECI, TANGEDCO, CESC etc. The company’s Managing Director Mr. R Chellappan has more than 35 years of experience in the electrical industry.

Key financial indicators (Audited) - Consolidated

	FY2017	FY2018
Operating Income (Rs. crore)	241.3	294.5
PAT (Rs. crore)	21.6	15.9
OPBDIT/ OI (%)	10.2%	11.2%
RoCE (%)	5.1%	4.3%
Total Debt/ TNW (times)	0.2	0.3
Total Debt/ OPBDIT (times)	4.6	6.3
Interest coverage (times)	2.4	3.4
NWC/ OI (%)	25%	30%

Status of non-cooperation with previous CRA: CRISIL, vide its release dated March 22, 2018 has classified company's rating as "issuer not-cooperating".

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 as on July31, 2018 (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					October 2018	-	-	-
1	Fund Based	Long-Term	50.0	34.1	[ICRA]A-(Stable); Assigned	-	-	-
2	Non-Fund Based	Short Term	25.0	4.8	[ICRA]A2+; Assigned	-	-	-
3	Fund Based/Non-Fund Based - Sub Limit	Long Term/Short Term	(10.0)	3.7	[ICRA]A-(Stable)/[ICRA]A2+; Assigned	-	-	-
4	Fund Based/Non-Fund Based Sublimit	Short term	(50.0)	1.1	[ICRA]A2+; Assigned	-	-	-
5	Term-Loan	Long- Term	23.35	23.35	[ICRA]A-(Stable); Assigned	-	-	-
6	Unallocated	Long Term/ Short Term	36.65		[ICRA]A-(Stable)/[ICRA]A2+; Assigned	-	-	-

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	Fund Based	-	-	-	50.0	[ICRA]A- (Stable)
NA	Non-Fund Based	-	-	-	25.0	[ICRA]A2+
NA	Fund Based/Non-Fund Based - Sublimit	-	-	-	(10.0)	[ICRA]A- (Stable)/ [ICRA]A2+
NA	Fund Based/Non-Fund Based Sublimit	-	-	-	(50.0)	[ICRA]A2+
NA	Term Loan	July 2017		FY2019	9.4	[ICRA]A- (Stable)
NA	Term Loan	Oct 2016		May 2019	2.7	[ICRA]A- (Stable)
NA	Term Loan	Oct 2016		Mar 2019	1.3	[ICRA]A- (Stable)
NA	Term Loan	Oct 2016		Mar 2020	3.0	[ICRA]A- (Stable)
NA	Term Loan	Feb 2018		Mar 2026	6.9	[ICRA]A- (Stable)
NA	Unallocated Limit				36.65	[ICRA]A- (Stable)/ [ICRA]A2+

Source: Swelect

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