U-Solar Clean Energy Solutions Private Limited

January 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	35.80	CARE BBB-; Stable	Assigned
Long-term / Short-term bank facilities	34.20	CARE BBB-; Stable / CARE A3	Assigned
Short-term bank facilities	30.00	CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank loan facilities of U-Solar Clean Energy Solutions Private Limited (Usolar) factor in the satisfactory track record of operations in installing solar project assets and experienced management. The ratings also factor in the diversified revenue income from both Engineering, Procurement, and Construction (EPC) and Opex model, wherein the long-term Power Purchase Agreements (PPAs) are in place with the off takers ensuring medium-term revenue visibility.

These rating strengths are partially offset by the ongoing high debt-funded capex in its subsidiaries for implementation of 25MW of solar assets through Opex model in three different special purpose vehicles (SPVs) which would lead to deterioration in the capital structure in the medium term. The ratings are further constrained by an elongated working capital cycle, leading to high dependency on working capital requirements, as well as the execution risks associated with the current order book and the susceptibility of profitability to the volatility in solar panel prices and regulatory impositions.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Timely execution of the existing orderbook leading to increase in total operating income (TOI) of more than ₹200 crore with sustaining profit before interest, lease rentals, depreciation and tax (PBILDT) margin above 18% on a sustained basis.

Negative factors

- Increase in working capital intensity of the operations leading to deterioration in overall gearing more than 3x in the medium term.
- Dip in PBILDT margin below 14% on a sustained basis
- Delay in the execution of the projects leading to cost and time overrun.

Analytical approach:

Standalone while factoring in equity commitments for the projects being carried out in subsidiaries. The subsidiaries/associates of Usolar are mentioned in Annexure-6.

Outlook: Stable

Stable outlook reflects company will continue to maintain its satisfactory track record of execution and order book position aided by long presence of the promoters in the industry.

Detailed description of the key rating drivers:

Key strengths

Satisfactory unexecuted order book position

As on November 30, 2023, Usolar has an orderbook of ₹288 crore equivalent to installation of 84MW of solar assets which has to be executed over a period of next 12 months. The current orderbook to TOI is around 3.30x of FY23, translating into healthy revenue visibility in the near term. With the company consistently bidding for large sized orders, CARE Ratings Limited (CARE Ratings) expects that the company's order book will remain at 3x of the company's income translating into growth in revenue by 20-25% in near to medium term.

Diversified revenue streamline

Apart from the EPC projects, the company undertakes installation of solar projects mainly rooftops based on Opex model. The complete capital investments to setup these Opex projects would be borne by the company and in turn the company would enter

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

the PPAs with the off taker for a period of 15 to 20 years to purchase the power. Till November 30, 2023, the company has executed and successfully installed Opex assets of 9.89MW. The clientele includes mainly from retail customers. With respect to the opex assets, Usolar has reported satisfactory collection period between 30-45 days during FY23 and 8MFY24. Since these projects are primarily executed on counterparty's rooftop/ their campus premises, CARE Ratings is of opinion that risk of termination of PPA is low resulting in stable cash inflows.

Demerger of Opex assets to a separate SPV, leading to reduction in the term-debt at the standalone entity
Under the Opex model, the company has executed around 9.89MW of assets in the last four years, of which 9.4MW of opex assets along with its liabilities (₹35 crore debt availed for creation of assets) has been transferred to a separate SPV viz. Usolar Assetco One Private limited (Assetco-one; rated CARE BBB-; Stable), with effective from December 01, 2023. The prima facia of demerger of the assets is to streamline the business between both the EPC and Opex assets. With the transfer/demerger of the assets, the existing term-debt underlying at the standalone level, has transferred to the Assetco-one and currently around ₹3 crore of term debt is lying at the standalone entity.

Experienced promoters and management with long track record of operations
Since inception, Usolar has executed more than 160MW of solar assets and has proven track record of more than two decades. The company is promoted by K.R. Harinarayan, and he has more than 25 years of experience in the solar industry. Furthermore, the company is supported by the experienced management team which average of experience of more than decade in the renewable energy industry. The company also has a strong technical expertise aided by professionals who have rich experience in the solar integration systems.

Key weaknesses

Debtfunded capex implementation in the SPVs
The company is implementing 25MW of opex model solar assets in three SPVs and several other projects are in pipeline which would require consistent equity infusion from Usolar. The total equity commitment towards these projects is ₹20 crore, of which equity commitment of Usolar share is approximately ₹16 crore and balance share of ₹4 crore are from its group captive off taker. Usolar has already infused ₹12.00 crore in the form of unsecured loans during FY23 and balance would be funded through internal accruals in medium term. The company is in advance discussions with the off taker for their capital commitment towards the project. CARE Ratings anticipates that the company's debt-to-equity ratio will deteriorate to nearly 2x in the next two years. Going forward, sustaining the debt-equity ratio below 2x would be a key rating metric.

Stretched receivables leading to high dependency on the working capital requirements
The operating cycle of the company deteriorated to 159 days during FY23 (FY22: 125 days) owing to increase in receivable days as around 50% of the booking was made in March 2023. Furthermore, with the retention money held with the customers for more than 180 days, the receivables days remains at higher levels. Due to retention held back with the customers, the company is dependent on the working capital funding from the banks. The average working capital utilisation of the company remained at levels between 78% for the last 12 months ending November 2023. Going forward, any further elongation in the collection period would be a key rating sensitivity.

Susceptibility of profitability to volatility in solar module prices
Solar panels form around 70% of the total project cost for any solar EPC project. Solar developers in India face cost pressures due to rising cell and module prices, even as supply chain issues begin to ease. This has mainly been driven by disruptions to operations across the Chinese solar value chain and the spike in the cost of polysilicon, which is a key input for module producers. In addition, the increase in solar PV cell and module prices, along with the imposition of basic customs duty (BCD) on imported cells and modules, is leading to cost pressure for solar power projects. Hence, the profitability of the company might be impacted due to variation in prices of solar panels at the time of procurement for different sites in absence of price escalation clause.

Susceptibility of its renewable power generation capacity to inherent risk of changes in climatic conditions
The operations solar energy generation projects are susceptible to the inherent risk of weather fluctuations (beyond the control of the company) such as variations in solar radiation levels, respectively, which can affect their plant load factors (PLFs). Also, the renewable energy generation projects are susceptible to seasonal variations. Any adverse variations in the climatic conditions would lead to decrease in the income which would impact the cash flows of the company.

Liquidity Position: Adequate
The liquidity profile of USolar is adequate with expected gross cash accruals in the range of ₹15 crore as against repayment obligations of around ₹3-4 crore for next two years. The company's average fund-based utilization remained at around 78% in the trailing 12 months ending November 2023. The company's satisfactory cash accruals, cash and bank balance provides it as a cushion against funds mismatches, if any, as well as any adverse market scenarios. CARE Ratings expects that the company would be generating adequate cash accruals for meeting the debt obligations in the medium term.
For the new term loans availed at the SPV levels, the repayments are expected to commence between September 2024 to May 2025 onwards. All SPVs are self-sustainable and do not require support from the parent entity. As of November 30, 2023, the free cash and cash equivalents stood at ₹8.84 crore.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Construction
Solar Power Projects

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil construction

U-Solar incorporated on September 14, 2010, is into EPC business in the solar segment, which provides complete solar power solutions for industrial, commercial, institutional and residential clients. The company executes the projects under both EPC and Opex model. Since inception, the company has executed/installed the solar assets of around 160MW in EPC business and around 9.89MW of assets in Opex model. The company is promoted by K.R. Harinarayan, and he has around 25 years of experience in the solar industry.
CARE Ratings also notes that the operating Opex assets of 9.4MW were transferred to the new subsidiary, Assetco-One, effective from December 01, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	November 30, 2023 (UA)
Total operating income	70.66	85.58	75.57
PBILDT	10.50	14.62	NA
PAT	3.61	1.40	NA
Overall gearing (times)	1.26	1.32	NA
Interest coverage (times)	2.69	2.22	NA

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	35.80	CARE BBB-; Stable
Fund-based - ST-Bill discounting/ Bills purchasing	-	-	-	-	30.00	CARE A3
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	34.20	CARE BBB-; Stable / CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash credit	LT	35.80	CARE BBB-; Stable				
2	Fund-based - ST-Bill discounting/ Bills purchasing	ST	30.00	CARE A3				
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	34.20	CARE BBB-; Stable / CARE A3				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities- Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - ST-Bill discounting/ Bills purchasing	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: Subsidiaries/associates of Usolar

Name of the Company	% of Shareholding	Relationship
Usolar Assetco One Private Limited	100%	Subsidiary
Blusolar Energy Ventures Private Limited	90%	Subsidiary
U-Solar Energy Services Private Limited	90%	Subsidiary
UVS Renewable Energy (India) Private Limited	51%	Subsidiary
Varp Solar Skylight Private Limited	49%	Associate Company

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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