Harsha Abakus Solar Private Limited

March 26, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	10.50	CARE BB (CWP) (Double B) (Under Credit watch with Positive Implications)	Assigned
Long Term / Short Term Bank Facilities	69.57 (Reduced from 128.50)	CARE BB (CWP)/ CARE A4 (CWP) (Double B / A Four) (Under Credit watch with Positive Implications)	Placed on Credit watch with Positive Implications
Long Term Bank Facilities	0.00 (Reduced from 38.82)	-	Withdrawn
Total Facilities	**80.07 (Rs. Eighty Crore and Seven Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Harsha Abakus Solar Private Limited (HASPL) have been placed under 'Credit watch with Positive Implications' in view of the recent approval by its Board of Directors of the composite schemes of amalgamation and arrangement among the Harsha Group companies (including HASPL), and the possible impact of the same on the credit profile of HASPL due to proposed merger of Harsha Engineers Limited (HEL, having significantly stronger credit profile) in to it. CARE would closely monitor the developments with respect to implementation of these schemes and would take a view on the ratings of HASPL post conclusion of the schemes and after analysing the exact impact of the same on the business and financial profile of HASPL.

The ratings of the bank facilities of HASPL continue to be constrained on account of reduction in its scale of operations along-with reporting large cash losses for the last two years ended FY20 (FY refers to the period from April 1 to March 31), low order book leading to minimal revenue visibility, its high leverage and weak debt coverage indicators along with its presence in the competitive and fragmented solar power Engineering Procurement and Construction (EPC) business with low entry barriers and susceptibility of its profitability to volatility in solar module prices and foreign exchange rates. CARE also takes note of the company availing the moratorium granted by its lender as a Covid relief measure (as permitted by the Reserve Bank of India) for a period of six months from March 2020 to August 2020 on servicing of the principal amount of its outstanding term loan on the back of its stretched liquidity.

The ratings, however, continue to derive strength from HASPL's experienced and resourceful promoters along with their demonstrated support and its established track record in solar power EPC business. The ratings also factor realization of part of its stuck receivables during Q4FY21 which have been utilized to prepay some of its debt.

Rating Sensitivities

Positive Factors

- Conclusion of the schemes of merger of HEL in to HASPL as envisaged
- Growth in its scale of operations marked by TOI of more than Rs.100 crore along with improvement in its profitability, leverage and debt coverage indicators
- Realisation of its pending stuck receivables along-with simultaneous reduction in its debt levels

Negative Factors

- Any delay in infusion of need based financial support from the promoters
- Decline in its scale of operations marked by TOI of less than Rs.50 crore on a sustained basis
- Continued losses from its solar power EPC operations
- Inordinate delay in collection of outstanding debtors, resulting in pressure on its liquidity

Schemes of amalgamation and arrangement

Harsha group has announced two schemes of amalgamation and arrangement. Under the first scheme, two subsidiaries of HEL viz. Harsha Engineers (India) Pvt. Limited and Aastha Tools Private Limited are to be merged with HEL and then HEL along-with Helianthus Solar Power Private Limited is to be merged with Harsha Abakus Solar Pvt. Ltd. (HASPL, engaged in

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

solar EPC business). Under the second scheme, Harsha Engineers B.V., Netherlands (currently subsidiary of HEL) would be merged with HASPL and the name of the resultant entity would be changed from HASPL to Harsha Engineers International Limited (HEIL).

The main objective of the schemes of business restructuring is to create a lean corporate structure wherein entire domestic operations (bearing cage manufacturing as well as Solar EPC) will be under one entity viz. HEIL which in turn shall have three overseas subsidiaries in China, Romania and USA. After requisite approval of these schemes by the respective company's board, they have been filed with the Honourable National Company Law Tribunal (NCLT) on March 03, 2021 with an appointed date of April 01, 2020.

Detailed description of the key rating drivers

Key Rating Weaknesses

Consistent decline in total operating income (TOI) with high amount of cash losses

As HASPL had executed a large solar power EPC project of 100MW in FY18, it reported huge increase in its TOI to Rs.449 crore during the year from TOI of Rs.102 crore in FY17. However, in FY19, TOI declined to a level of Rs.120 crore which further declined to Rs.66 crore during FY20. HASPL incurred huge cash losses during FY19 & FY20. The primary reason for the loss was increased overheads in FY18, which was carried to FY19 and FY20 as well along-with finance cost associated with the term debt availed to fund its working capital requirement. During FY20, the TOI has declined to Rs.66 crore due to lower execution of orders and closure of operation for last week of March due to Covid-19, which was the peak billing cycle for the company. Going forward, management has decided to focus on rooftop solar projects.

During 9MFY21, HASPL has achieved TOI of Rs.38.67 crore with reduction in PBILDT level loss at Rs.6.08 crore. In order to curtail the losses, company has relieved many ground-mounted specialized manpower as HASPL is currently focusing on smaller size projects.

High working capital intensity due to inordinate delay in realization of debtors from its completed projects

HASPL's operations are working capital intensive as it is engaged in EPC business wherein payment terms are linked to achievement of project's progress milestone with certain portion being kept as retention money. The outstanding debtors have reduced from Rs.142.39 crore as on March 31, 2019 to Rs.105.75 crore as on March 31, 2020. On March 01, 2021, HASPL realized Rs.32.62 crore of long overdue receivables from NLC India Ltd. (NLC), which has been utilized to retire its entire outstanding Working Capital Term Loan (WCTL) availed from the bank. However, even after this realization, outstanding debtors still stood at a high level.

High leverage and weak debt coverage indicators

Over the last two years ended FY20, HASPL is incurring cash losses, leading to decline in its net worth and deteriorating debt coverage indicators. However, promoters have infused funds in the form of equity and unsecured loans to support the operations. Over the last two years, promoters have infused ~Rs.22.00 crore of funds. The overall gearing of HASPL stood at 16.03 times as on March 31, 2020, which limits its financial flexibility to raise any additional debt. However, upon retirement of entire WCTL and availment of Guaranteed Emergency Credit Line (GECL) with 12 months of moratorium, the scheduled repayment obligation of HASPL for FY22 stands very low.

Competitive and fragmented solar power EPC business with low entry barriers

As EPC business does not require any significant investment or gestation period, unlike manufacturing facilities, it entails high competition in relatively lower expertise EPC business such as solar power EPC. These low entry barriers have resulted in large number of organized and unorganized players entering the industry which has led to increased competition and pressure on profitability.

High susceptibility to volatility in solar module prices and fluctuation in foreign exchange rates

Due to its stuck receivables, HASPL's management has decided to focus on medium size EPC projects wherein scope of work does not cover the procurement of solar module or smaller size project which doesn't require large funds to procure solar modules. However, it is still exposed to volatility in solar module prices and forex risk, though the impact could be relatively low compared to earlier years.

Liquidity: Stretched

Liquidity of HASPL stands stretched on account of significant cash losses in the last two years, restricted utilization of working capital limits by its lenders and marginal operations currently. Its banks have restricted the utilization of non-fund based limits to ~Rs.48 crore, thereby limiting the headroom available to the company. Further, HASPL availed the moratorium granted by its lender as a Covid relief measure (as permitted by the Reserve Bank of India) for a period of six months from March 2020 to August 2020 on servicing of principal amount of its outstanding term loan on the back of its stretched liquidity. However, its liquidity has improved recently upon realization of Rs.32.62 crore of long overdue receivables which has been utilized to entirely retire its outstanding WCTL. Its liquidity is also supported by availment of Rs.10.50 crore of GECL from its banks.

Key Rating Strengths

Experienced and resourceful promoters with demonstrated track record of providing need-based support to HASPL's operations

The promoters of HASPL (Mr. Harish Rangwala, Mr. Rajendra Shah and their family members) have extensive experience in the engineering industry. Moreover, HASPL also derives financial flexibility and demonstrated support from its promoters, who have also promoted Harsha Engineers Limited (HEL; rated 'CARE A+ /CARE A1+; under credit watch with developing implications') which is a leading manufacturer of bearing cages in India and a preferred supplier to several reputed multinational bearing companies. The promoters of HASPL, in their individual capacity, infused ~Rs.22 crore of unsecured loans / equity during FY19 & FY20 on the back of cash losses in HASPL.

Established execution track record in solar power EPC business

HASPL has an operational track record of more than 8 years and has completed more than 45 solar EPC projects, wherein the company has engaged in design, consulting, EPC and O&M services for off-grid as well as on-grid solar power projects as an integrated solar energy solutions provider. HASPL's largest project was of 100 MW solar power project in Tamil Nadu, which was completed on time, however, due to unavailability of power evacuation facilities, the commissioning of the project was delayed by ~1 month, otherwise most of the projects executed in past, were completed on time, which reflects its demonstrated execution capability. Further, HASPL has executed the projects in various states like Tamil Nadu, Gujarat, Maharashtra, Rajasthan and Karnataka which also enhances its geographical diversity. Going forward, HASPL has decided to focus on the relatively smaller size rooftop projects.

Expected improvement in credit profile of HASPL upon proposed merger of the bearing cage business of HEL in to it

Upon conclusion of the proposed schemes of amalgamation and arrangement, bearing cage business of HEL would get merged with HASPL. HEL has a comfortable financial profile and the same would transmit to HASPL. Accordingly, the schemes of amalgamation and arrangement in its present form is expected to result in significant improvement in credit profile of HASPL as and when it is completed.

Analytical Approach: Standalone while factoring promoter's articulation to provide timely need-based support to HASPL in case of any requirement.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Policy on Withdrawal of ratings
Rating Methodology-Construction Sector
Financial Ratios: Non-Financial Sector
Liquidity Analysis of Non-financial sector

About the Company

HASPL was initially incorporated in December 2010 as a joint venture (JV) between HEL and Abakus Solar AG with initial equity participation in the ratio of 76% and 24% respectively. HEL's stake was increased to 96.87% as on March 31, 2014 which was gradually divested to the promoters of HEL (Rajendra Shah and Harish Rangwala families) who increased their equity stake in HASPL to 99.99% during FY17. HASPL provides EPC solutions for the installation and commissioning of on-grid and off-grid solar power plants and roof top solutions.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total operating income	120.67	65.50
PBILDT	(15.60)	(33.25)
PAT / (Net loss)	(17.24)	(34.79)
Overall gearing (times)	3.15	16.03
Interest coverage (times)	NM	NM

A; Audited, NM: Not meaningful as losses at PBILDT level

As per provisional results for 9MFY21, the company reported total operating income of Rs.38.67 crore and incurred losses before tax of Rs.12.92 crore.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-II

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC	NA	NA	NA	69.57	CARE BB / CARE A4 (CWP)
Fund-based - LT-Term Loan	NA	NA	NA	0.00	Withdrawn
Fund-based - LT-Working capital Term Loan	NA	NA	Dec 2025	10.50	CARE BB (CWP)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	69.57	CARE BB / CARE A4 (CWP)	1)CARE BB; Stable / CARE A4 (08-Sep-20)	1)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (31-Mar-20)	1)CARE BBB-; Stable / CARE A3 (25-Mar-19)	1)CARE BBB; Stable / CARE A3 (18-Dec-17) 2)CARE BBB; Stable / CARE A3 (07-Jul-17)
2.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	-	-	1)Withdrawn (08-Sep-20)	1)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (31-Mar-20)	1)CARE BBB-; Stable / CARE A3 (25-Mar-19)	1)CARE BBB; Stable / CARE A3 (18-Dec-17) 2)CARE BBB; Stable / CARE A3 (07-Jul-17)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	-	-	1)Withdrawn (08-Sep-20)	1)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (31-Mar-20)	1)CARE BBB-; Stable / CARE A3 (25-Mar-19)	1)CARE BBB; Stable / CARE A3 (18-Dec-17) 2)CARE BBB; Stable / CARE A3 (07-Jul-17)
4.	Non-fund-based - LT-Bank Guarantees	LT	-	-	1)Withdrawn (08-Sep-20)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (31-Mar-20)	1)CARE BBB-; Stable (25-Mar-19)	1)CARE BBB; Stable (18-Dec-17) 2)CARE BBB; Stable (07-Jul-17)
5.	Fund-based - LT-Term Loan	LT	-	-	1)CARE BB; Stable (08-Sep-20)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (31-Mar-20)	1)CARE BBB-; Stable (25-Mar-19)	-
6.	Fund-based - LT-Working capital Term Loan	LT	10.50	CARE BB (CWP)	-	-	-	-

Annexure-3: Complexity Level of various facilities rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT-Working capital Term Loan	Simple
3.	Non-fund-based - LT/ ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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