Harsha Abakus Solar Private Limited

March 25, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long- Term/Short-Term Bank Facilities	105.00 (reduced from Rs.230.67 crore)	**CARE BBB-; Stable/CARE A3; (Triple B Minus; Outlook: Stable/ A Three)**	**Revised from CARE BBB; Stable/ CARE A3**
Long-Term Bank Facilities	20.34 (reduced from Rs.41.00 crore)	**CARE BBB-; Stable (Triple B Minus; Outlook; Stable)**	**Revised from CARE BBB; Stable**
Long-Term Bank Facilities	45.00	**CARE BBB-; Stable (Triple B Minus; Outlook; Stable)**	**Assigned**
Total Facilities	**170.34 (Rs. One Hundred Seventy Crore and Thirty Four Lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Harsha Abakus Solar Private Limited (HASPL) is on account of its modest profitability during FY18 (refers to the period April 1 to March 31) on account of increase in cost of solar module; and loss incurring operations during H1FY19 on account of decline in scale of operations and higher overheads. The revision in the rating also takes into account its increased working capital intensity due to inordinate delay in the realization of debtors from its completed Engineering Procurement and Construction (EPC) solar power projects which in turn have resulted in deterioration in its leverage and debt protection indicators.

The ratings, however, continue to derive strength from HASPL's experienced and resourceful promoters along with their demonstrated support towards its uninterrupted operations and its established track record in solar power EPC business. The ratings also take cognizance of the strong credit profile of NLC (India Ltd (NLC; rated CARE AAA; Stable) from whom HASPL envisages steady recovery of its large receivables for its completed EPC project.

The ratings, however, continue to be constrained on account of the competitive and fragmented nature of solar power EPC business with low entry barriers and high susceptibility to volatility in solar module prices and foreign exchange rates.

HASPL's ability to realize its stretched receivables in line with maturing debt repayment liabilities and receive timely need-based support from the promoters in line with their articulation for meeting any shortfall in cash flows shall be the key rating sensitivities. Further, its ability to effectively manage volatility associated with solar module prices and fluctuation in foreign exchange rates along with prudent bidding practice in future projects shall also be a key rating monitorable.

Detailed description of the key rating drivers

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+; Stable/CARE A1+') which is a leading manufacturer of bearing cages in India and a preferred supplier to several reputed multinational bearing companies. The promoters of HASPL have been regularly infusing unsecured loans in to the company on need basis. Unsecured loans from promoters in HASPL have steadily increased from Rs.25.85 crore (including quasi equity of Rs.22 crore) as on March 31, 2017 to Rs.43.85 crore as on September 30, 2018.

Established execution track record in solar power EPC business: HASPL has executed more than 45 EPC solar power projects on turnkey basis having aggregate capacity of more than 300 MW over past six years ended March 31, 2018. HASPL has completed most of the projects within estimated time frame 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.

Completion of large EPC project for NLC: During February 2017, HASPL had received contract for setting up a 100 MW solar power plant in Tamil Nadu with EPC cost of Rs.403.00 crore from NLC. HASPL has completed this project at total project cost of Rs.457 crore (includes EPC cost of Rs.403 crore and balance component is GST and custom duty which

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

were statutory variations). The project was successfully commissioned by HASPL on May 04, 2018 and provisional acceptance of the same was issued by NLC with effect from October 27, 2018.

Key Rating Weaknesses:

Modest profitability during FY18 and losses incurred during H1FY19 along with small order book: TOI of HASPL grew from Rs.102.08 crore during FY17 to Rs.448.96 crore during FY18 on account of execution of the large-sized EPC project of 100 MW for NLC. Nevertheless, PBILDT margins remained modest at 2.83% during FY18 on account of increase in prices of solar module which couldn't be passed-on due to fixed price nature of its EPC contract. Furthermore, HASPL reported loss of Rs.6.37 crore at PBILDT level during H1FY19 on account of its high operating leverage with decline in scale of operations to Rs.62.48 crore and its high overhead costs. Order book declined to Rs.69.45 crore as on February 25, 2019 indicating modest revenue visibility.

High leverage: Modest profitability and project specific debt had resulted in high overall gearing of 5.04 times as on March 31, 2018. Overall gearing, though reduced due to repayment of project specific debt, it continued to remain high at 3.25 times as on September 30, 2018. Debt protection indicators also remained modest due to subdued profitability and high debt level.

Liquidity Analysis:

Increase in 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 physical milestone with certain portion of retention money. HASPL's debtors had increased from Rs.56.12 crore as on March 31, 2017 to Rs.312.74 crore as on March 31, 2018 largely on account of debtors pertaining to its NLC project. However, subsequent realization of receivables from NLC led to reduction in receivables to Rs.149.75 crore as on September 30, 2018. Correspondingly, total debt of HASPL also reduced from Rs.254.93 crore as on March 31, 2018 to Rs.114.47 crore as on September 30, 2018. Total debt mainly constituted of working capital bank borrowing of Rs.92.62 crore and unsecured loans from promoters of Rs.21.85 crore. However, further reduction in working capital borrowing is contingent upon timely realization of balance receivables as debtors more than six months had increased from Rs.19.43 crore as on March 31, 2107 to Rs.94.79 crore as on December 31, 2018. It was mainly due to outstanding receivables of Rs.65.72 crore from NLC (including retention money of Rs. 20 crore). Although strong credit profile of NLC and issuance of provisional completion certificate by it provide some comfort, HAPSL's ability to realize outstanding receivables in time bound manner is crucial from credit perspective. Its current ratio stood at 1.04 times as on March 31, 2018. Timely need based support as has been articulated by HASPL's promoters to bridge the deficit in cash flow will be a key rating monitorable.

Competitive and fragmented solar power EPC business with low entry barriers: No significant investment is required for the EPC work of solar power project which results in low entry barriers in the business. These low entry barriers have resulted in large number of organized and unorganized players entering the industry which has led to increased competition and probable impact on profitability.

High susceptibility to volatility in solar module prices and fluctuation in foreign exchange rates: Although HASPL procures raw material only upon the receipt of confirmed order and signing of power purchase agreement (PPA) by developers, it is still exposed to volatility in solar module prices in the lead time. Furthermore, imports constituted 45% of the projects bought out components. Although HASPL books forward contract to hedge its foreign currency exposure, it is exposed to inherent foreign exchange fluctuation risk.

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 to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

CARE's methodology for Infrastructure companies

Financial Ratios- 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)	FY17 (A)	FY18 (A)
Total operating income (TOI)	102.08	448.96
PBILDT	1.10	12.72
PAT	-0.93	6.57
Overall Gearing (times)	0.38	5.04
Interest coverage (times)	0.50	1.56

A: Audited;

Based on provisional results for H1FY19, HASPL reported TOI of Rs.62.48 crore and net loss of Rs.12.14 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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Annexure-1: Details of 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	-	-	-	95.00	CARE BBB-; Stable / CARE A3
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	5.00	CARE BBB-; Stable / CARE A3
Fund-based/Non-fund-based-LT/ST	-	-	-	5.00	CARE BBB-; Stable / CARE A3
Non-fund-based - LT-Bank Guarantees	-	-	-	20.34	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	October 2021	45.00	CARE BBB-; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	95.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (18-Dec-17) 2)CARE BBB; Stable / CARE A3 (07-Jul-17)	1)CARE BBB; Stable / CARE A3 (11-Jan-17)	1)CARE BBB / CARE A3+ (07-Jan-16) 2)CARE BBB / CARE A3+ (07-Jan-16)
2.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	5.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (18-Dec-17) 2)CARE BBB; Stable / CARE A3 (07-Jul-17)	1)CARE BBB; Stable / CARE A3 (11-Jan-17)	1)CARE BBB (07-Jan-16) 2)CARE BBB / CARE A3+ (07-Jan-16)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	5.00	CARE BBB-; Stable / CARE A3	-	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	20.34	CARE BBB-; Stable	-	1)CARE BBB; Stable (18-Dec-17) 2)CARE BBB; Stable (07-Jul-17)	-	-
5.	Fund-based - LT-Term Loan	LT	45.00	CARE BBB-; Stable	-	-	-	-

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