Harsha Abakus Solar Private Limited

July 7, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long- Term/Short-Term Bank Facilities	230.67 (enhanced from Rs.100 crore)	**CARE BBB; Stable/CARE A3; (Triple B; Outlook: Stable/ A Three)**	**Reaffirmed**
Long-Term Bank Facilities	41.00	**CARE BBB; Stable (Triple B; Outlook; Stable)**	**Assigned**
Total Facilities	**271.67 (Rs. Two Hundred Seventy One Crore and Sixty Seven Lakh 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) continue to derive strength from its experienced and resourceful management, established execution track record in solar engineering, procurement and construction (EPC) business and favorable government policies for solar power sector in India. The ratings also factor significant increase in the order book of the company particularly with receipt of new order from NLC India Ltd (NLC; rated 'CARE AAA') along with realization of debtors leading to improvement in cash flow from operations during FY17 (refers to the period April 1 to March 31) and improvement in leverage.

The ratings are, however, constrained due to working capital intensive nature of operations, competitive and fragmented solar EPC business with low entry barriers and susceptibility to volatility in solar module prices and foreign exchange rates. The rating also factors decline in total operating income (TOI) and losses incurred by the company during FY17 leading to moderation in its debt coverage indicators.

Ability of the company to complete NLC project within envisaged time and cost parameters leading to generation of envisaged profitability along with efficiently managing its working capital requirements shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful management: The promoters of the company have extensive experience in the engineering industry. Moreover, HASPL also derives strong financial flexibility and demonstrated support from its promoters. The group company of HASPL, Harsha Engineers Limited (HEL; rated 'CARE A; Stable/CARE A1+'), 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 the company on need basis.

Established execution track record in solar EPC business and favorable government policies for solar power sector in India: HASPL has executed more than 40 turnkey EPC solar projects having aggregate capacity of more than 170 MW over past 5 years ended March 31, 2017. HASPL has completed all the projects within estimated time frame which reflects its demonstrated execution capability. There has been a significant push from the Government of India (GoI) for increasing share of solar power in the total power generation capacity which is expected to benefit the company in the medium to long term. India, being endowed with a high solar insolation, is in a favourable position to reap the benefits of solar power. The Ministry for New and Renewable Energy estimates India's solar potential at 750 giga watt (GW). India has raised its solar power target from 20 GW to 100 GW (divided into rooftop solar electricity generation of 40 GW and large and medium scale grid connected solar projects of 60 GW) by 2022.

Significant increase in order book of the company: HASPL's order book increased from Rs.170.00 crore as on November 30, 2016 to Rs.476.82 crore as on May 23, 2017. The order book majorly includes one project of NLC for EPC of Rs.403.40 crore for setting up of 100 mega watt (MW) solar PV power project in Tamil Nadu and O&M work of Rs.31.00 crore for the project. EPC cost of HASPL for NLC project is lower at Rs. 4.03 crore per MW as against benchmark EPC cost of Rs. 5.03 crore per MW for solar PV power plant during FY17. Although, capital cost for commissioning of solar power plant per MW decline considerably due to fall prices of module, HASPL's ability to complete the project while generating envisaged profit is crucial from the credit perspective.

Realization of debtors leading to improvement in cash flow from operations during FY17 and improvement in leverage: HASPL's operations are working-capital intensive as it is engaged in EPC business (i.e. supply, installation and

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

commissioning) which is majorly tender driven. However, the company's debtors declined from Rs.130.22 crore as on March 31, 2016 to Rs.56.51 crore as on March 31, 2017. Furthermore, the debtors due for more than six months declined from Rs.31.09 crore as on March 31, 2016 to Rs.19.53 crore as on March 31, 2017. Realisation of debtors led to company generating healthy cash flow from operations of Rs.27.03 crore during FY17 as against negative cash flow from operations of Rs.19.85 crore during FY16.

Key Rating Weaknesses

Competitive and fragmented solar EPC business with low entry barriers: No significant investment is required for the EPC work for solar 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.

Susceptibility to volatility in solar module prices and 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 cell 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.

Decline in TOI and cash losses incurred during FY17 leading to moderation in debt coverage indicators: The TOI of the company declined from Rs.245.81 crore during FY16 to Rs.96.47 crore during FY17 primarily on account of increased competition in the sector and management's stance of bidding for projects where they envisage good profitability and favourable credit terms. The company incurred a cash loss of Rs.4.54 crore primarily on account of low profitability of the projects executed during the FY17 and high fixed costs like employee cost. The losses incurred by the company led to moderation in company's debt coverage indicators during FY17.

Analytical approach: Standalone

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

Incorporated in December 2010, HASPL was a joint venture (JV) between HEL and Abakus Solar AG with initial equity participation in the ratio of 76% and 24% respectively. Subsequently, HEL and promoters of HEL (Rajendra Shah and Harish Rangwala family) increased its equity stake to 99.99% during FY16. However, HEL divested its entire stake of 52.50% in the company to the promoters of HEL during FY17. HASPL provides EPC solutions for the installation and commissioning of on-grid and off-grid solar power plants and also roof top solutions. Incorporated in December 2010, HASPL was initially a joint venture (JV) between Harsha Engineers Limited (HEL; rated 'CARE A; Stable/CARE A1+') and Abakus Solar AG with initial equity participation in the ratio of 76% and 24% respectively. Subsequently, HEL and promoters of HEL (Rajendra Shah and Harish Rangwala family) increased their equity stake to 99.99% during FY16. However, HEL divested its entire stake of 52.50% in the company to the promoters of HEL during FY17. HASPL provides EPC solutions for the installation and commissioning of on-grid and off-grid solar power plants and also roof top solutions. As per provisional financials of FY17, HASPL has reported a total operating income of Rs.96.47 crore (FY16: Rs.245.81 crore) and a net loss of Rs.4.76 crore (FY16: profit after tax of Rs.2.92 crore).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-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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About CARE Ratings:

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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	-	-	-	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	-	-	-	130.67	CARE BBB; Stable / CARE A3
Non-fund-based - LT-Bank Guarantees	-	-	-	41.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	95.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (11-Jan-17)	1)CARE BBB / CARE A3+ (07-Jan-16) 2)CARE BBB / CARE A3+ (24-Dec-15)	-
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 (11-Jan-17)	1)CARE BBB / CARE A3+ (07-Jan-16) 2)CARE BBB (24-Dec-15)	-
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	130.67	CARE BBB; Stable / CARE A3	-	-	-	-
4.	Non-fund-based - LT-Bank Guarantees	LT	41.00	CARE BBB; Stable	-	-	-	-

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