Harsha Abakus Solar Private Limited

December 18, 2017

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long- Term/Short-Term Bank Facilities	230.67	**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)**	**Reaffirmed**
Total Facilities	**271.67 (Rs. Two Hundred Seventy One Crore and Sixty Seven Lakh only)**		

Details of instruments/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 promoters, established track record in execution of solar projects on an engineering, procurement and construction (EPC) basis and favorable government policies for solar power sector in India. The ratings also take into consideration improvement in the cash flow from operations during FY17 (refers to the period from April 01 to March 31) and comfortable leverage as on March 31, 2017. The rating also takes note of the achievement of financial closure for the project awarded by NLC India Limited (NLC; rated 'CARE AAA'); albeit with the order for solar modules yet to be placed.

The ratings, are, however constrained on account of the working capital intensive nature of its operations, competitive and fragmented solar EPC business with low entry barriers and susceptibility to volatility in solar module prices and foreign exchange rates. The ratings also factor 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 the large NLC project within the envisaged time and cost parameters, extent of impact on profitability due to increase in solar module prices of late, efficient management of its working capital requirements and timely realization of the pending debtors shall remain the key rating sensitivities. Further, timely and need based support from the promoters shall also remain crucial from the credit perspective.

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 EPC solar projects on turnkey basis 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 irradiation, is in a favourable position to reap the benefits of solar power. GoI has set a target of reaching 100 GW of solar capacity by 2022 (as against 14.77 GW capacity as on September 30, 2017).

Improvement in cash flow from operations and leverage during FY17: HASPL's operations are working-capital intensive as it is engaged in EPC business (i.e. supply, installation and commissioning) which is majorly tender driven. However, the company's debtors declined from Rs.130.22 crore as on March 31, 2016 to Rs.56.12 crore as on March 31, 2017. Realisation of debtors led to company generating healthy cash flow from operations of Rs.34.00 crore during FY17 as against negative cash flow from operations of Rs.20.81 crore during FY16. However, debtors more than six months increased from Rs.24.62 crore as on March 31, 2017 to Rs.34.41 crore as on September 30, 2017 which is a cause of concern. Timely realization of the outstanding debtors shall remain crucial from the credit perspective.

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

Updates on NLC project which has led to increase in its order book: HASPL had received an order for Rs.403.40 crore and O&M work of Rs.31.00 crore for execution of a solar project from NLC during February 2017. As on November 30, 2017, HASPL has procured more than 80% of the project related land and has transferred the ownership of the same to NLC. Further, majority of the site development work has been completed and company has received approval for the power evacuation while work related to laying of power transmission line is at initial stage. However, HASPL is yet to place orders for the solar modules (which forms major part of the cost of solar power project). This is expected to result in lower than previously estimated profitability from NLC project on account of increase in prices of solar modules of late. Completion of the project within envisaged time and cost parameters remains key rating sensitivities.

Key Rating Weaknesses

Competitive and fragmented solar 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.

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 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.

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.102.08 crore during FY17 primarily on account of increased competition in the sector and management's stance of bidding for projects where they envisage reasonable profitability and favourable credit terms. The company incurred minor cash loss of Rs.0.74 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

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)	FY16 (A)	FY17 (A)
Total operating income (TOI)	245.81	102.08
PBILDT	7.96	1.10
PAT	2.68	-0.93
Overall Gearing (times)	2.51	0.38
Interest coverage (times)	1.80	NM

A: Audited;

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 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 (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+ (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 (07-Jul-17)	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	1)CARE BBB; Stable / CARE A3 (07-Jul-17)	-	-	-
4.	Non-fund-based - LT-Bank Guarantees	LT	41.00	CARE BBB; Stable	1)CARE BBB; Stable (07-Jul-17)	-	-	-

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CIN - L67190MH1993PLC071691