Harsha Abakus Solar Private Limited

September 08, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	38.82	**CARE BB; Stable (Double B; Outlook: Stable)**	Revised from CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable) and removed from INC
Long Term / Short Term Bank Facilities	128.50	**CARE BB; Stable / CARE A4 (Double B; Outlook: Stable / A Four)**	Revised from CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable / A Four Plus) and removed from INC
Total Facilities	**167.32 (Rupees One Hundred Sixty Seven Crore and Thirty Two 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) factors consistent 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) and inordinate delay in realization of its stuck receivables.

The ratings further continue to be constrained on account of its high leverage, weak debt coverage indicators, stretched liquidity, its presence in the competitive and fragmented solar power Engineering Procurement and Construction (EPC) business with low entry barriers and susceptibility 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 demonstrated support in the past and its established track record in solar power EPC business.

Rating Sensitivities

Positive Factors

- Growth in its scale of operations marked by TOI of more than Rs.100 crore along with positive PAT margins
- Retirement of term loan with the realisation of its stuck receivables

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.80 crore
- Continued losses from its operations
- Delay in collection of long outstanding debtors, resulting in pressure on its already stretched liquidity

Key Rating Weaknesses

Consistent decline in total operating income (TOI) with high amount of cash losses during FY19 & FY20

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 which further declined to Rs.66 crore during FY20 (Prov.). 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.66.28 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.

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

During Q1FY21, HASPL's operations were almost at halt for 2 months due to nationwide lockdown. For month of June it reported meager TOI of Rs.6.58 crore with net losses of Rs.2.99 crore for Q1FY21.

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 physical 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.117.27 crore as on March 31, 2020. However, outstanding debtors remained very high. Out of the outstanding total debtors of Rs.115.95 crore as on June 30, 2020, Rs.96.11 crore is outstanding for a period of more than 1 year due to various disputes and it majorly includes outstanding debtors of ~Rs.64 crore from NLC India Limited (NLC) w.r.to 100 MW project completed in FY18.

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 4.56 times as on March 31, 2020, which limits its financial flexibility to raise additional debt. Further, repayment of its term loan (post expiry of loan moratorium on August 31, 2020) during FY21 would be largely dependent on realization of its debtors. Any delay in realization of debtors would entail financial support from the promoter group to service its debt repayment obligation in a timely manner.

Competitive and fragmented solar power EPC business with low entry barriers
As EPC business doesn't 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 doesn't cover the procurement of solar module or smaller size projects 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, high utilization of fund based working capital limits and scheduled long term repayment obligations for FY21 vis-à-vis 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.

HASPL's management is expecting to realize sizeable portion of its receivables from NLC India Limited during FY21 which is likely to support the servicing of its debt in FY21. Any delay in realization of debtors would entail timely financial support from the promoter group which they have demonstrated in the past.

<u>Key Rating Strengths</u>
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, 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 ~2 months, 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.

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
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Policy on Withdrawal of ratings
Rating Methodology-Construction Sector
Liquidity Analysis of Non-financial sector
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)	FY18 (A)	FY19 (A)	FY20 (Prov.)
Total operating income	448.96	120.67	66.29
PBILDT	12.72	(15.60)	(14.14)
PAT / (Net loss)	6.57	(17.24)	(15.95)
Overall gearing (times)	5.04	3.15	4.56
Interest coverage (times)	1.56	NM	NM

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

As per provisional results for Q1FY21, the company reported total operating income of Rs.6.58 crore and incurred loss before taxes of Rs.2.99 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

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	-	-	-	128.50	CARE BB; Stable / CARE A4
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	0.00	Withdrawn
Fund-based/Non-fund-based-LT/ST	-	-	-	0.00	Withdrawn
Non-fund-based - LT-Bank Guarantees	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	June 2022	38.82	CARE BB; 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 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	128.50	CARE BB; Stable / CARE A4	-	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)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)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (31-Mar-20)	1)CARE BBB-; Stable / CARE A3 (25-Mar-	1)CARE BBB; Stable / CARE A3 (18-Dec-

							19)	17) 2)CARE BBB; Stable / CARE A3 (07-Jul-17)
4.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	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	38.82	CARE BB; Stable	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (31-Mar-20)	1)CARE BBB-; Stable (25-Mar-19)	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based/Non-fund-based-LT/ST	Simple
3.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple
4.	Non-fund-based - LT-Bank Guarantees	Simple
5.	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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