Ujaas Energy Limited

October 06, 2017

Ratings

Facilities / Instrument	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	98.42 (reduced from Rs.108.64 crore)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Reaffirmed**
Short Term Bank Facilities	80.00	**CARE A3+ (A Three Plus)**	**Reaffirmed**
Long Term/Short Term Bank Facilities	85.00	**CARE BBB; Stable/ CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)**	**Reaffirmed**
Total Facilities	**263.42 (Rupees Two Sixty Three Crore and Forty Two Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Ujaas Energy Limited (UEL) continue to derive strength from the experience of its promoters in the power infrastructure industry, its established track record in setting up of solar power plants and stable track record of power generation from its owned solar power plants. The ratings also take into account significant growth in total operating income in consecutive second year ended FY17 (refer period April 01 to March 31) along with moderate capital structure and comfortable debt coverage indicators. The ratings also take into consideration healthy domestic demand outlook for solar roof top / solar Engineering, Procurement and Construction (EPC) business with government focus on increasing solar power generation capacity in the country.

The ratings, however, are constrained on account of saleability risk associated with high unsold inventory of Renewable Energy Certificates (RECs) along with downward revision in floor rate of REC in April 2017, UEL's working capital intensive operation with elongated debtor collection and increase in debtors outstanding for more than 6 months as on March 31, 2017 compared to March 31, 2016 and its moderate order book position. The ratings also continue to remain constrained due to increasing competition amongst EPC players, regulatory risks associated with evolving solar power industry and susceptibility of profitability to forex rate fluctuation as large part of solar modules are imported, albeit short execution tenure for majority of contracts alleviates the forex risk to a certain extent.

UEL's ability to grow its scale of operation with sustained growth in its order book, timely realisation of unsold inventory of REC at an envisaged price and controlled working capital with improvement in debtor collection would be the key rating sensitivities. Further, future debt funded capex/acquisition and any adverse changes in the regulatory environment would also be key credit monitorables.

Detailed description of the key rating drivers

Key Rating Strengths

Experience of management having established track record of setting up solar power plants: The management of UEL has an experience of more than three decades in the power infrastructure industry through its transformer manufacturing business established in 1979. Till September 26, 2017, the company had set up 250 Mega Watt (MW) of solar power plants for various clients including private, government and quasi-government agencies.

Significant growth in total operating income in consecutive second year ended FY17: During FY17, total operating income grew by 71% over FY16 on account of large number of EPC project executed leading to revenue growth in EPC segment. However, since the majority growth in total operating income was led by growth in low margin EPC revenue, the overall PBILDT margin declined and remained moderate during FY17. Furthermore, the PBIDLT margin for EPC segment also declined during FY17 compared to FY16 due to competitive bidding on the back of increasing competition.

Moderate capital structure and comfortable debt coverage indicators: The capital structure improved marginally as on March 31, 2017 and remained moderate marked by overall gearing (including LC backed creditors) ratio of 0.76 times,

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

compared to 0.93 times as on March 31, 2016, primarily on account of its strong networth base. Further, the debt coverage indicators, i.e. interest coverage ratio and total debt to GCA ratio, have remained comfortable during FY17.

Stable power generation track record of 14 MW owned solar power plant: UEL has its solar power plant of 14 MW in Madhya Pradesh based on a REC mechanism. The company sells the power generated from its power plant to various private sector customers at a discount to the customers' existing grid prices. Further, it also sells RECs on energy exchange, which is purchased by distribution utilities and open access customers to meet their Renewable Purchase Obligations (RPOs) as mandated by their respective regulators.

Increased government focus on creating solar power generation capacity: Solar power sector's cumulative installed capacity has increased from around 35 MW as on March 31, 2011 to around 12.29 GW as on March 31, 2017. As per the National Solar Mission Scheme, cumulative solar installed capacity is projected to reach to 100 GW (including 40 GW rooftop projects) by 2022.

Key Rating Weaknesses

Moderate order book position: UEL has a moderate order book of 66 MW (~ Rs.360 crore, considering Rs.5.5 crore per MW) as on September 26, 2017 which translates into modest revenue visibility (0.75x of total operating income of FY17) in the medium-term. Further, most of UELs' orders are short-term orders for installing small-sized solar power plants and half of the orders are for solar roof top.

Salability risk associated with unsold inventory of REC: UEL has been recognizing the income from unrealized REC based on an accrual basis i.e. based on the power generation through its owned 14 MW solar plants. Though, it sells RECs on energy exchanges, the large part of RECs remained unsold every year. Further, Central Electricity Regulator Commission (CERC) has revised the floor price of REC from Rs.3,500/certificate to Rs.1,000/certificate since April 2017. Previously, CERC was allowed the multiplier to the investors of RECs whenever CERC revised the floor price lower. However, during last revision in April 2017, the CERC has not allowed any multiplier. Hence, solar power generation companies have filed a petition in Supreme Court and the decision is awaited. Moreover, pending the litigation, the trading of REC in Indian energy exchanges has not happened since April 2017.

It is to be noted that UEL has outstanding unsold RECs inventory valued Rs.54.92 crore as on March 31, 2017 which was valued at Rs.3,500 per certificate. Considering the present market price of Rs.1,000, the inventory value of REC is overstated by Rs.39.23 crore.

Working capital intensive nature of operations with elongation in debtor collection: The operations of UEL are working capital intensive marked by high gross current assets. Further, UEL has debtor outstanding for more than 6 months of Rs.41 crore as on March 31, 2017 which was increased from Rs.21 crore as on March 31, 2016. Further, on an overall basis, there was an elongation in debtor collection which stood high at Rs.190 crore as on March 31, 2017 resulting into negative cash flow from operations during FY17. However, the liquidity of the company is supported by unnumbered cash and bank balance and liquid investments of Rs.35 crore as on March 31, 2017.

Profitability susceptible to volatility in forex rates, but short execution tenure of contracts alleviates the risk to a certain extent: Solar modules contribute around 70-75% of the total cost of a solar power plant. For its EPC business as well as solar solutions business, a majority of the solar modules used by UEL were imported from their Chinese supplier which leads to risk of foreign exchange fluctuations on its un-hedged portion. However, a typical order execution cycle for its solutions business, takes around 120 days to be executed, a fairly short time frame for risk exposure.

Susceptibility to regulatory risks associated with the solar power business: UEL's scale of operations remained volatile on account of the regulatory risk associated with its solar power EPC business (incl. its solar solutions business). Any change by the government in the fiscal and tax benefits can result in slow-down of orders for the solar power EPC industry, till such time the project's returns have good visibility.

Presence in a competitive solar power EPC industry: Solar EPC business does not require significant investment or expertise 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 in turn put pressure on profitability.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)
[Rating methodology for manufacturing companies](#)
[Financial ratios – Non-Financial Sector](#)

About the Company

UEL was promoted by Mr. Shyam Sundar Mundra under the name of *'M and B Switchgears'* in 1979 as a proprietorship concern to manufacture transformers and switchgears. It was subsequently converted in to a partnership firm in 1995 and then incorporated in 1999. Over the past few years, UEL has diversified its operations to solar power segment and hence, its name was also changed from *'M and B Switchgears Ltd.'* to its present one in August 2013.

UEL is currently engaged in mainly two businesses segments, viz., establishing solar power plants on Engineering, Procurement and Construction (EPC) basis (which contributed ~92.5% of its revenue in FY17) and power generation through solar energy (which contributed ~ 6.5% of its revenue in FY17). As on March 31, 2017, the company owns & operates 14 MW of solar power generation capacity.

(Rs. Crore)

Brief Financials	FY16 (A)	FY17 (A)
Total operating income	279.04	477.72
PBILDT	65.92	74.66
Adj. PBILDT #	51.77	62.93
PAT	20.89	36.32
Overall gearing (Including acceptances/ creditors on LC) (times)	0.93	0.76
Overall gearing (Including acceptances/ creditors on LC) (times) @	*1.19*	*1.00*
PBILDT Interest coverage (times)	2.77	3.78

 # Excluding unrealised value of REC
@ Excluding unsold inventory of REC from tangible net-worth

Further, during Q1FY18, UEL reported total operating income of Rs.108.07 crore with PAT of Rs.7.40 crore as compared to Rs.100.57 crore and Rs.7.26 crore respectively during Q1FY17.

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.*

Analyst Contact:
Name: Krunal Modi
Tel: 079 - 40265614
Mobile: +91 85111 90084
Email: krunal.modi@careratings.com

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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
Fund-based - LT-Term Loan	NA	NA	March 2026	88.92	CARE BBB; Stable
Fund-based - LT-Cash Credit	NA	NA	NA	9.50	CARE BBB; Stable
Non-fund-based - LT/ ST-BG/LC	NA	NA	NA	85.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Letter of credit	NA	NA	NA	80.00	CARE A3+

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.	Fund-based - LT-Term Loan	LT	88.92	CARE BBB; Stable	-	1)CARE BBB (23-Jun-16) 2)CARE BBB (31-May-16)	-	-
2.	Fund-based - LT-Cash Credit	LT	9.50	CARE BBB; Stable	-	1)CARE BBB (23-Jun-16) 2)CARE BBB (31-May-16)	-	-
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	85.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB / CARE A3+ (23-Jun-16) 2)CARE BBB / CARE A3+ (31-May-16)	-	-
4.	Non-fund-based - ST-Letter of credit	ST	80.00	CARE A3+	-	1)CARE A3+ (23-Jun-16)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 9198190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 9198196 98985
E-mail: ankur.sachdeva@careratings.com

Ms.Rashmi Narvankar
Cell: + 9199675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 9198209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail:pratim.banerjee@careratings.com

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