Vikram Solar Limited

February 15, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	105.69 (reduced from 110.20)	CARE A-; Positive (Single A Minus; Outlook: Positive)	Reaffirmed with change in outlook from Stable
Short Term Bank Facilities	100.0	CARE A2+ (A Two Plus)	Reaffirmed
Total	**205.69 (Rupees Two Hundred Five crore and Sixty Nine Lakh only)**		

Details of facilities/instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Vikram Solar Limited (VSL) continue to derive comfort from the experience of the promoter group along with presence in diverse business segments, promoters financial support to the company by the way of infusion of unsecured loans, technical competence resulting in strong execution capabilities, strong marketing presence, order-book from reputed clientele, fiscal incentives available due to location of the plant in special economic zone, significant reduction in exposure to group companies, completion of the 400 MW capacity expansion project in March 2017, consistent high capacity utilisation and sustained growth in revenue and profitability.

The ratings are tempered by VSL's capital intensive nature of operations, performance risk of modules, moderate debt coverage indicators due to debt funded capital expenditure in FY16 and FY17, exposure to the risk of foreign exchange fluctuation, volatility in prices of raw materials and increasing competition in the industry due to capacity additions.

Going forward, ability of the company to improve the capacity utilisation, profitability metrics and overall capital structure remains key rating sensitivities.

Outlook: **Positive**

CARE has assigned a positive outlook to the long-term bank facilities of VSL in the expectation that the overall capital structure of the company is likely to improve in the near term on the back of accretion of profits to reserves considering recent capacity additions by the company and expected increase in the existing order-book given thrust of existing government to improve solar power capacities across the nation. The outlook may be revised to Stable if the capital structure of the entity does improves as envisaged and may be revised to negative if the order-book and overall profitability of the company declines sharply.

Detailed description of the key rating drivers

Key Rating Strengths

Diversified group and experienced promoter albeit limited experience in SPV industry

VSL is a part of Vikram Group, headed by Mr. Hari Krishna Chaudhary along with his sons Mr. Anil Chaudhary and Mr. Gyanesh Chaudhary. Mr. Hari Krishna Chaudhary has experience of more than five decades and both his sons are also well experienced businessmen. The group started business in 1974 through Vikram India Limited which is engaged in manufacturing of machineries for tea processing units on turnkey basis. After establishing its position in the tea processing machinery business, the group diversified into textiles by setting up units in Surat with presence in Dyes & Chemical processing and Yarn Processing which is being managed by Mr. Anil Chaudhary. The group also runs educational institutions under Ballaram Hanumandas Charitable Trust (CARE BBB; Stable) and Hari Krishna Chaudhary Foundation catering to more than 10,000 students.

Promoter support through regular infusion of funds

The promoter of VSL has demonstrated financial support to the company by continuous infusion of funds in the form of equity and unsecured loans in order to meet incremental working capital requirements, financing of capex and investment in group companies.

Technical competence resulting in strong execution capabilities

VSL had purchased latest automatic module manufacturing lines in the past from Spire Corporation (USA), NPC Corporation (Japan) and 3S (Switzerland). Under the terms of purchase, VSL received employee training aiding transfer of technology and product efficiency support from these companies thereby strengthening VSL's technical competence.

Performance risk of SPV modules

The SPV modules manufactured by VSL are sold with standard warranty terms of 10 years for workmanship and 25 years for performance. Performance warranty is restricted to 90% power output at the end of 10th year and 80% power output at the end of 25th year. The modules can degrade upto 3% in the first year and thereafter it degrades at the rate of 0.7% per annum. Modules have to be replaced if the performance falls below the warranty level. Since the company does not have any agreement for passing on the liability to the suppliers of raw materials, the company can face financial implication in case of any claim raised by the customer. Furthermore, the risk arising out of the same are mitigated by strong quality control measures, various in-line quality inspections and various other tests undertaken by the company before rolling out any products. Till date, negligible warranty claims has been raised on VSL.

Fiscal incentives available due to its plant being located in SEZ

VSL is eligible for various fiscal incentives like exemption from 100% income tax exemption on export income under Sec 10AA of the Income Tax Act for first 5 years (availed till March 2014), 50% for next 5 years thereafter (available till March 2019) and 50% of the ploughed back export profit for next 5 years. These fiscal benefits have been instrumental in growing profitability of VSL over the years. The withdrawal of Income Tax benefit after the specified period (March 2019) may have an impact on the profitability of the company. The company is eligible for tax incentives for a period of 10 years starting from Fy16 on its expanded unit.

Strong marketing presence in India and abroad

VSL has various certifications like ISO 9001:2008 (Quality management system), ISO 14001:2004 (Environmental management system) and SS OHSAS 18001:2007 (Occupational health & safety systems). This apart, VSL's products and systems are accredited with various certifications like IEC 61215, IEC 61730, IEC 61701 by TUV Rheinland, UL by UL Laboratories for US market, MCS by BBA for UK market, CE by Communauté Européenne for Australian Market and MNRE for Indian market. This helps the company to market its products in India as well as abroad.

Satisfactory Order Book position with a near term revenue visibility

VSL's order-book which consists of both EPC and module supply contracts is more inclined towards EPC contracts (both rooftops and others). Aggregate order-book as on December 31, 2017 stood at Rs.1,272.69 crore out of which 87.65% corresponds to EPC contracts.

The EPC contract entered into are with reputed players, thus reducing the receivables risk. However, the EPC contracts entered into are fixed price contract; hence, there exists a risk in fluctuation in prices of solar modules.

The company has set up a 10 MW solar power plant at Tirumala Tirupati Devasthanam (TTD) which was commissioned in March 2017 for which the company has signed a 20 year Power Purchase Agreement with TTD at Rs.4.49 per unit. This in turn is also a source of steady revenue for the company.

Consistently high capacity utilisation

Due to increasing demand of solar modules, VSL has been consistently increasing its production capacity year on year. In FY16, the company expanded its capacity from 100 MW to 350 MW in and from 350 MW to 750 MW in FY17. Along with the capacity expansion, the company has also been successful in utilizing its available capacities at the optimum level. Due to continuous orders in hand, VSL's capacity utilisation has been more than 90% since FY14.

Sustained growth in revenue and profitability; however, high debt coverage indicators due to debt funded capital expenditure in FY16 and FY17

VSL's operating revenue and profitability has been increasing year on year. The company registered an operating revenue of Rs.1,654.82 crore during FY17 as against a revenue of Rs.910.42 crore in FY16 due to increase in capacity and efficient utilisation of such capacities. In absolute terms, Profit Before Interest Depreciation and Taxes (PBIDT) also improved from Rs.107.47 crore in FY16 to Rs.181.66 crore in FY17. However, the profitability margin declined from 11.80% in FY16 to 10.98%.

During FY17, the company incurred a capital expenditure of around Rs.196 crore for 10 MW solar plant commissioned in April 2017 at Tirumala Tirupati Devasthanam and for increase in existing module manufacturing capacity by 400 MW. The company additionally borrowed around Rs.160 crore during FY17. Due to such additional borrowings, VSL's overall gearing has increased from 2.0x as on March 31, 2016 to 2.08x as on March 31, 2017.

Aggregate cash accrual from business was reported at Rs.102.55 crore as against Rs.51.18 crore in FY16. VSL's term debt repayment between FY18 to FY19 is around Rs.61.68 crore. As on March 31, 2017, the ratio of term debt to GCA stood at 2.23x.

VSL's operating cycle has been high. Since FY15, such operating cycle stood between 93 to 126 days. The same is on account of high debtors and inventory cycle. VSL's debtors have reputed names in the industry and belongs to both public and private sectors having high bargaining powers. Average collection period in FY17 was around 80 days and there have been no bad debts. The company maintains inventory of raw materials to protect itself from fluctuations in prices of solar modules and uninterrupted contractual performance.

Key rating weakness

Volatility in raw-material prices

Solar panel prices have witnessed sharp decline over the past few years on account of the significant improvement in technology and economies of scale. Being an emerging sector, Solar Power is marked by newer technologies owing to continual research and development efforts being put in by organisations across the globe. Amongst other things, these R&D activity are targeted at developing thinner wafers to make them more cost effective, increasing the solar module conversion efficiency and making the Balance of System more cost effective. Most of the EPC contracts entered into are fixed price contracts, therefore, exposing the company to price volatility.

Exposure to foreign exchange fluctuation risk

The company has forex exposure in the form of forex payable (for import of raw materials), foreign currency borrowings (buyers' credit for capital goods and for raw materials) and forex receivable (for export of SPV modules). While the exports of the final goods and import of the raw materials provide a natural hedge to the company and mitigate the foreign exchange fluctuation risk to a certain extent, the higher value of the imports over the last few years as compared to exports exposes the volatile foreign currency movement. As against an export of Rs.75.19 crore in FY17, the imports were Rs.756.51 crore. The wide gap between exports and imports exposes the company towards foreign exchange risk. The company in FY16 incurred a net foreign exchange profit of Rs.8.79 crore in FY17 (loss of Rs.2.96 crore in FY16).

Increasing competition in the industry, particular from the upcoming module manufacturing capacity which are expected to be cost competitive

Increasing competition from the upcoming solar module manufacturing entities might put pressure on the profitability margins of the existing firms in the industry.

Industry Outlook

The outlook for SPV module manufacturers appears satisfactory on the back of major focus of the Indian Government towards the solar power sector. The Indian Government has set high goals for the solar industry, with hopes to install 100 gigawatts of solar power by 2022.

Prospects

The ability of the company to scale up the operations & improve the profitability, effectively manage the working capital, improve the capital structure in the future as envisaged would remain the key rating sensitivities

Analytical approach: Standalone.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Criteria for Short Term Instruments

About the company

Incorporated in 2005 and promoted by Mr. Gyanesh Chaudhary, son of Mr. Hari Krishna Chaudhary (Chairman of Vikram Goup), Vikram Solar Private Limited (VSPL) is involved in manufacturing of Solar Photo Voltaic (SPV) modules at its manufacturing facility located at Falta SEZ in West Bengal. Having started its commercial operations from November 2009 with an installed capacity of 12 MW, the company has gradually increased its capacity over the years and at present has an installed capacity of 750 MW (increased from 350 MW in March 2017). The company has the capacity to manufacture SPV modules from 3 Watt peak to 300 Watt peak and has various certifications to market its products in India and abroad through a side distribution network in the form of branches dealers and distributors.

Apart from the sale of SPV modules, VSPL is also engaged in Engineering, Procurement and Construction business (EPC) business involving setting up of small size solar power plants (like off-grid system, roof-top applications) - installation of modules and other auxiliary equipment's for power storage and evacuation, which contributed about 13% to the turnover of the company in FY17. Furthermore, the company also deals in solar products like Solar Lantern, Solar Street Lights, Home Lighting Systems, etc.

The company is a part of Vikram Group of Kolkata, chaired by Mr. Hari Krishna Chaudhary, having business interests in solar module manufacturing, solar EPC business, solar power generation, engineering, dyes & chemicals processing, yarn processing and educational trusts.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	910.42	1,654.82
PBILDT	107.47	181.66
PAT	54.98	108.93
Overall gearing (times)	2.00	2.08
Interest coverage (times)	2.97	3.34

A: Audited

Status of non-cooperation with other 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	Rating assigned along with Rating

				(Rs. crore)	Outlook
Fund-based - LT-Cash Credit	-	-	-	100.00	CARE A-; Positive
Non-fund-based - ST-Letter of credit	-	-	-	65.00	CARE A2+
Fund-based - LT-Term Loan	-	-	March 2025	5.69	CARE A-; Positive
Non-fund-based - ST-Bank Guarantees	-	-	-	35.00	CARE A2+

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-Cash Credit	LT	100.00	CARE A-; Positive	-	1)CARE A-; Stable (03-Mar-17)	1)CARE A- (02-Nov-15) 2)CARE BBB+ (12-Aug-15)	1)CARE BBB (22-Jul-14) 2)CARE BBB (08-Jul-14)
2.	Non-fund-based - ST-Letter of credit	ST	65.00	CARE A2+	-	1)CARE A2+ (03-Mar-17)	1)CARE A2+ (02-Nov-15) 2)CARE A2 (12-Aug-15)	1)CARE A3+ (22-Jul-14) 2)CARE A3+ (08-Jul-14)
3.	Fund-based - LT-Term Loan	LT	5.69	CARE A-; Positive	-	1)CARE A-; Stable (03-Mar-17)	1)CARE A- (02-Nov-15) 2)CARE BBB+ (12-Aug-15)	1)CARE BBB (22-Jul-14)
4.	Non-fund-based - ST-Bank Guarantees	ST	35.00	CARE A2+	-	1)CARE A2+ (03-Mar-17)	1)CARE A2+ (02-Nov-15) 2)CARE A2 (12-Aug-15)	1)CARE A3+ (22-Jul-14)

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