Vikram Solar Limited

March 29, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	104.69 (Reduced from 105.69)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE A-; Positive (A Minus; Outlook: Positive)
Short term Bank Facilities	100.00	CARE A2 (A Two)	Revised from CARE A2+ (A Two Plus)
Total	**204.69 (Rs. Two hundred four crore and sixty nine lakh only)**		

Rating Rationale

The revision in rating assigned to bank facilities of Vikram Solar Limited (VSL) factors in deterioration in the performance of the company in FY18 (refers to the period from April 1 to March 31) and 9MFY19 coupled with moderation in liquidity. The rating continue to draw comfort from experience of the promoters and presence in diverse business segments, promoters support through infusion of funds, technical competence resulting in strong execution capabilities, strong marketing presence, and satisfactory order book position.

The ratings are tempered by moderate capital structure and debt service parameters, working capital intensive nature of operations, exposure to foreign exchange fluctuation risk, volatility in raw material prices, performance risk of SPV modules and increasing competition in the industry.

Going forward, ability of the company to improve profitability metrics through execution of orders and improvement in capital structure remains key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experience of the promoters and presence in diverse business segments: 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. 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 and Hari Krishna Chaudhary Foundation catering to more than 10,000 students.

Promoters support through 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 and financing of capex.

Technical competence resulting in strong execution capabilities: VSL had purchased latest automatic module manufacturing facility in the past from Spire Corporation (USA), NPC Corporation (Japan), Team Techniche(USA) 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.

Strong marketing presence: VSL has various certifications like ISO 9001-2015 (Manufacturing division), ISP 9001-2015(EPC division), ISO 14001:2015 (Environmental management system), OSHA 5. This apart, VSL's products and systems are accredited with various certifications like IEC 62716, IEC 61730, IEC 61701, IEC 61215 & 61730, IEC 60068 by TUV Rheinland, UL 1703 by UL Laboratories for US market, MCS by BBA for UK market, and BIS for Indian market. VSL has its branches in Delhi, Gurugram, Chennai, Raipur, Bangalore, Pune, Mumbai, Jaipur and Kolkata. On the global map, it has set up its own branches in USA, Germany, Singapore, Kenya, China and Dubai. This helps the company to market its product in India as well as abroad.

Satisfactory order book position: 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, 2018 stood at Rs.2774.64 crore (Rs1483.49 crore as on December 31, 2017).

Consistently high capacity utilization: Due to increasing demand of solar modules, VSL has been consistently increasing its production capacity. Along with the capacity expansion, the company has also been successful in utilizing its available capacities at the optimum level. VSL's capacity utilization has dipped to 81% in FY18 vis-a-vis 96% in FY17 because it took around 2 months for new capacity to get fully operational which was almost double the level at the end of FY17.

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

Key Rating Weaknesses

Decline in profitability margins: VSL registered operating revenue of Rs.1,905 crore during FY18 as against Rs.1,705 crore in FY17 due to efficient utilization of such capacities. However, PBDILT margin declined from 9.93% in FY17 to 7.56% in FY18 on account of declining sales realization from solar modules, ambiguity as regards the GST rate on solar power generation system, under absorption of overhead costs due to lower capacity utilization in FY18. In line with PBDILT margin, PAT margin also declined from 4.76% in FY17 to 2.26% in FY18 on account of increase in interest cost. As a result, interest coverage ratio also declined from 3.11x in FY17 to 2.11x in FY18.

Moderate capital structure and debt service parameters: Capital structure of the company remains leveraged however, overall gearing of VSL decreased from 2.76x as on FY17 to 2.54x as on FY18 due to repayment of term loans and ploughing back of profits. However, Total Debt/GCA has deteriorated from 6.52x in FY17 to 9.82x in FY18 on account of low accretion of profit.

Working capital intensive nature of operations: VSL's operating cycle has been high. Since FY16, operating cycle stood between 126-101 days. The same is on account of high debtors and inventory cycle. VSL's debtors have reputed names in the industry and belong to both public and private sectors having high bargaining powers. Average collection period in FY18 was around 92 days due to high volume of sales during Q4FY18. The company maintains inventory of raw materials to protect itself from fluctuations in prices of solar cells and uninterrupted contractual performance. High operating cycle is financed partly through working capital borrowing and partly through unsecured loan brought in by the promoters.

Exposure to foreign exchange fluctuation risk: The company has forex exposure in the form of forex payable (for import of raw materials) and forex receivable (for export of SPV modules). While the exports of the final goods, import of the raw materials and USD denominated domestic sales 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 and USD denominated domestic sales exposes the volatile foreign currency movement. However, company has a policy of hedging around 51% of its net forex exposure.

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. Solar Power is marked by continuous improvement in technologies owing to continual research and development efforts being put in by organizations across the globe. Amongst other things, these R&D activities 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

Performance risk of SPV modules: The SPV modules manufactured by VSL are sold with standard warranty terms of 25 years for performance. The modules can degrade at the rate of 0.7% per annum. Modules have to be repaired if the performance falls below the warranty level. The company uses the latest technology, crystalline solar panel, which provides a higher efficiency as compared to other solar panels.

Increasing competition in the industry: Increasing competition from the upcoming solar module manufacturing entities might put pressure on the profitability margins of the existing firms in the industry. However, VSL's low cost of production, brand image and large scale provides the company an edge over its competitors.

Moderate Liquidity: The inventory period for the company remains high as the company has to maintain raw material and finished goods inventory of about 1.5 month to cater to spot demand from both domestic as well as export market. Also, large parts of orders are executed towards the year end in view of majority of government orders announced in the last quarter. This leads to accumulation of inventory and high debtors at the year end.

The average fund based limit utilization during the last twelve months period ended December 2018 stood at ~75.00% while for non-fund based limit stood at ~85.00%.

Prospects: Going forward, ability of the company to improve profitability metrics through execution of orders and improvement in capital structure remains key rating sensitivities.

Analytical approach: Standalone Approach

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

About the company

Incorporated in 2005 and promoted by Mr. Gyanesh Chaudhary, son of Mr. Hari Krishna Chaudhary (Chairman of Vikram Goup), Vikram Solar Limited (VSL) 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. The company has the capacity to manufacture SPV modules from 3 Watt peak to 400 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, VSL is also engaged in Engineering, Procurement and Construction business (EPC) business involving setting up of solar power plants (both ground mount and roof-top applications) .Furthermore, the company provides operation & maintenance services for solar power plants.
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, solar power generation, engineering, dyes & chemicals processing, yarn processing and educational trusts.

Brief Financials (Rs. crore)	FY17 (A*)	FY18 (A*)
Total operating income	1705.97	1905.14
PBILDT	169.35	144.00
PAT	81.25	43.31
Overall gearing (times)	2.76	2.54
Interest coverage (times)	3.11	2.11

***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
Fund-based - LT-Cash Credit	-	-	-	100.00	CARE BBB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	65.00	CARE A2
Fund-based - LT-Term Loan	-	-	-	4.69	CARE BBB+; Stable
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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	100.00	CARE BBB+; Stable	-	1)CARE A-; Positive (15-Feb-18)	1)CARE A-; Stable (03-Mar-17)	1)CARE A- (02-Nov-15) 2)CARE BBB+ (12-Aug-15)
2.	Non-fund-based - ST-Letter of credit	ST	65.00	CARE A2	-	1)CARE A2+ (15-Feb-18)	1)CARE A2+ (03-Mar-17)	1)CARE A2+ (02-Nov-15) 2)CARE A2 (12-Aug-15)
3.	Fund-based - LT-Term Loan	LT	4.69	CARE BBB+; Stable	-	1)CARE A-; Positive (15-Feb-18)	1)CARE A-; Stable (03-Mar-17)	1)CARE A- (02-Nov-15) 2)CARE BBB+ (12-Aug-15)
4.	Non-fund-based - ST-Bank Guarantees	ST	35.00	CARE A2	-	1)CARE A2+ (15-Feb-18)	1)CARE A2+ (03-Mar-17)	1)CARE A2+ (02-Nov-15) 2)CARE A2 (12-Aug-15)

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