Vikram Solar Private Limited

March 03, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	110.20 (reduced from 100.00)	**CARE A-; Stable [Single A Minus; Outlook: Stable]**	Reaffirmed
Short-term Bank Facilities	100.00	**CARE A2+ [A Two Plus]**	Reaffirmed
Total Facilities	**210.20 (Rs. Two hundred Ten crore and Twenty lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to Vikram Solar Private Limited (VSPL) continue to derive comfort from the experience of the promoter group and presence in diverse business segment, continuous support of the promoters via infusion of funds, technical competence resulting in strong execution capabilities, strong marketing presence, strong order book position, sustained growth in revenue and profitability levels over the years, fiscal incentives available due to location of the plant and significant reduction in exposure to group and associate companies. The ratings are however constrained by working capital intensive nature of operations, exposure to foreign exchange fluctuation risk, performance risk of solar photo voltaic modules and Debt funded capital expenditure by the company leading to increase in debt levels.

The ability of the company to timely execute its order book, improve the capital structure and complete the on-going project as per the envisaged timelines would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with presence in diversified business segment: VSPL 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.

Promoters support through regular infusion of funds: The promoter of VSPL 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.

Fiscal incentives available due to its plant being located in SEZ: VSPL is eligible for various fiscal incentives like exemption from Central Sales Tax (CST), Value Added Tax (VAT), Service Tax, Custom Duty, Excise Duty, income tax exemption on export income under Sec 10AA of the Income Tax Act for first 5 years, 50% for the next 5 years thereafter and 50% of the ploughed back export profit for the next 5 years.

Strong marketing presence in India and abroad: VSPL 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, VSPL's products and systems are accredited with various certifications from International and domestic agencies. This helps the company to market its products in India as well as abroad.

Strong Order Book position: As on December 31, 2016, the company has an order book of SPV modules of Rs.283.35 crore which are to be executed in the next 4-5 months and outstanding EPC contract of Rs.3107.71 crore which is expected to be completed in a three years' time period, thereby providing revenue visibility for the future.

Sustained growth in revenue and profitability levels over the years though deterioration witnessed in capital structure in FY16: Net sales of the company increased at a CAGR of 45.28% during FY14-FY16, with a Y-o-Y growth of 45.66% in FY16 driven by higher volume sales of SPV modules arising out of higher capacity. PAT margin of the company improved in FY16 vis-à-vis FY15, mainly on account of higher increase in the PBILDT level of the company vis-à-vis the capital charges.

The debt equity and overall gearing of the company deteriorated as on March 31, 2016 vis-à-vis March 31, 2015 mainly on account of availment of term loan for the 150 MW project coupled with higher utilization of working capital limits to support the increased level of operations.

Reduction in exposure to group and associate companies: During FY17, the aggregate exposure of VSPL towards its group companies reduced drastically by Rs.34.22 crore primarily on account of sale of its entire stake in Lexicon Vanijya Private Limited to Renew Solar Power Private Limited which has resulted in release of the corporate guarantee (provided by VSPL) for term loans.

Key Rating Weaknesses

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

Working capital intensive nature of operations: The operation of VSPL remains working capital intensive in nature mainly on account of high raw material and finished goods inventory maintained by the company to cater to both domestic and export market.

Exposure to foreign exchange fluctuation risk: The company has forex exposure in the form of forex payable, foreign currency borrowings and forex receivable. 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. The company hedges around 15-20% of its net forex exposure.

Performance risk of SPV modules: The SPV modules manufactured by VSPL are sold with standard warranty terms of 10 years for workmanship and 25 years for performance. Modules have to be replaced if the performance falls below the warranty level. However, VSPL has supplied about 350 MW of solar modules in the domestic and export market since inception (last 6 years) and till date no major warranty claim has been raised on VSPL.

High capital expenditure leading to increase in debt levels: VSPL is enhancing its solar PV module capacity from its current installed capacity of 350 MW to 750 MW by July 2017. The project cost of Rs.196.92 crore is to being funded at a debt equity ratio of 1.95:1. Financial closure of the same has been achieved and the company is expected to commence its commercial production from March 2017. The company is also setting up 10 MW solar power plant at a cost of Rs.52.64 crore being funded in a debt equity ratio of 1.98:1. The above on going capex has led to increase in debt level.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
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. 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.

In FY16 (refers to the period April 01 to March 31), VSPL reported PAT of Rs.54.98 crore (FY15- Rs.35.13 crore) on a total operating income of Rs.910.42 crore (FY15- Rs.623.14 crore).

In 9MFY17 (Provisional; refers to the period April 01 to December 31), VSPL reported PBILDT of Rs. 114.50 crore on a total operating income of Rs.1016.09 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

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 A-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	65.00	CARE A2+
Fund-based - LT-Term Loan	-	-	March 2020	10.20	CARE A-; 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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Cash Credit	LT	100.00	CARE A-; Stable	-	1)CARE A- (02-Nov-15) 2)CARE BBB+ (12-Aug-15)	1)CARE BBB (22-Jul-14) 2)CARE BBB (08-Jul-14)	1)CARE BBB- (16-Oct-13)
2.	Non-fund-based - ST-Letter of credit	ST	65.00	CARE A2+	-	1)CARE A2+ (02-Nov-15) 2)CARE A2 (12-Aug-15)	1)CARE A3+ (22-Jul-14) 2)CARE A3+ (08-Jul-14)	1)CARE A3 (16-Oct-13)
3.	Fund-based - LT-Term Loan	LT	10.20	CARE A-; Stable	-	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+ (02-Nov-15) 2)CARE A2 (12-Aug-15)	1)CARE A3+ (22-Jul-14)	-

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