June 08, 2020

Vikram Solar Limited: Ratings reaffirmed at [ICRA]A-(Stable)/A2+

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	210	210	[ICRA]A- (Stable) Reaffirmed
Cash Credit	433	433	[ICRA]A- (Stable) Reaffirmed
Non-fund based-Working Capital Facilities	1657	1657	[ICRA]A2+; Reaffirmed
Total	**2300**	**2300**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings continues to factor in Vikram Solar Limited's (VSL) leading position in the domestic solar PV industry, with a solar module manufacturing capacity of ~1 GW and its strong order inflow in the last one year, which resulted in a healthy order book outstanding as on date, providing revenue visibility. While reaffirming the ratings, ICRA has taken note of the impact of the outbreak of Covid-19 on the performance of the company during the last quarter of FY2020. With loss of revenue of ~ Rs. 400 crore, VSL's operating profits and debt coverage indicators are estimated to have moderated in the last financial year. However, a significant part of the revenue loss is expected to be recuperated in FY2021, which along with a healthy order book is likely to result in an improvement in the financial performance of the company. VSL, as on date, has ~860 MW of solar EPC[1] projects at various stages of execution, out of which over 90% are for solar projects of NTPC Ltd (rated [ICRA]AAA (Stable)/A1+). While this exposes VSL to the client concentration risk, the counterparty risk remains low. VSL has received regular payments and advances from NTPC in the last two months for its ongoing projects, which provide liquidity support. Going forward, NTPC's commitment in these projects and VSL's ability to timely execute them, despite challenges due to the pandemic, would be the key rating sensitivities.

The ratings continue to factor in the competitive cost structure of the company compared to its domestic as well as global peers. ICRA also notes that the company has increased its presence in the overseas market, which, apart from providing a cushion against any slowdown in the domestic solar industry, demonstrates the technical competence of the company in manufacturing solar modules of superior efficiency. The ratings also favourably factor in the healthy long-term demand outlook for solar photo-voltaic modules and EPC contracts in the country.

VSL's technical competence in the solar EPC segment, having commissioned several projects of varying complexity in the last ten years of its operations, is a credit strength. The company's strong execution capabilities, backed by its expertise in design and engineering of grid connected/off-grid solar PV projects, helped it in generating healthy orders over the years. Such orders were mainly secured from large reputed customers that reduce counterparty risks, and in turn, are expected to ensure timely realisation of receivables. The ratings further reflect VSL's high capacity utilisation level, which supports its return on capital employed (RoCE). However, ICRA takes cognisance of the increasing competition in the market, particularly from the recently commissioned module manufacturing capacities.

[1] *Engineering Procurement Construction*

The ratings are, however, tempered by VSL's working capital intensive business, which notwithstanding an improvement in the recent years, remains high because of its large receivables and long inventory holding days. High working capital borrowings, along with debt-funded capex undertaken in the past, resulted in VSL's gearing remaining at high levels. However, a steady accrual is expected to result in some improvement in the gearing, going forward. ICRA notes that VSL provides a warranty of up to 25 years on the performance of its solar modules. The ratings are tempered by the risk of future devolvement of such warranties, which can lead to large cash outflows, thereby impacting the financial profile of the company. However, the company's strong quality control measures, its expanding research and development set-up and the comprehensive acceptance tests undertaken on its solar modules provide comfort. Going forward, while VSL's cash flows are expected to be comfortable relative to its debt service obligations, its ability to book adequate orders for its large capacity and execute such orders profitably in a timely manner while maintaining adequate liquidity would be the key rating sensitivities.

Key rating drivers and their description

Credit strengths

Established business position – VSL has an established market position in the domestic solar power industry, post commissioning of large-scale grid-connected solar projects. The company's position in the global industry has also seen an improvement over the years, with consistent sale of modules in the US.

Healthy order book position – The company's order book position continues to remain strong as on date, which provides revenue visibility for about one and a half years. The company has registered consistent EPC order inflows from NTPC and other state discoms. Such orders include a large 450-MW order from NTPC under the latter's Central Public Sector Undertaking (CPSU) scheme.

Healthy plant utilisation level, resulting in healthy return on capital employed (RoCE) – VSL has maintained 80-100% capacity utilisation levels at its module manufacturing units in the last few financial years. Healthy capacity utilisation levels result in a healthy level of RoCE, which stood at 14.8% in FY2019. While the RoCE witnessed some moderation in FY2020 because of deferment of revenues, the same is expected to improve materially in FY2021.

Strong customer profile – VSL's customer profile remains strong, having commissioned large solar power projects for NTPC Limited, ONGC Limited, the Indian Space Research Organisation etc.

Favourable long-term demand outlook for solar photo voltaic modules and EPC contracts – VSL's long-term demand outlook remains favourable, given the Government of India's thrust on developing solar capacity in India. The imposition of safeguard duty on import of solar cells and modules benefits VSL's order book position.

Credit challenges

Aggressive capital structure and suppressed debt coverage indicators – Large debt-funded capital expenditure coupled with large working capital loans resulted in an aggressive capital structure of the company, with estimated debt to equity of ~1.3 as on March 31, 2020. Debt coverage indicators also remained supressed with an interest cover of 1.7 in FY2020, as per provisional results.

High working capital intensity in business – VSL's high working capital intensity impacts its overall liquidity position as the company maintains a large inventory of raw materials. While this results in large working capital loans in the books of the company, it also reduces the risks of raw material availability. The overall working capital intensity is also tempered by the company's large year-end nature of sales, which has reduced in the last couple of years, leading to an improvement in the working capital intensity.

Rising market competition – Competition in the domestic solar PV industry has increased because of new entities entering the market as well as existing manufacturers increasing their capacities. Nevertheless, VSL's low cost of production and large scale provide the company with an edge over its competitors. Additionally, ICRA expects solar power project installations to remain adequate, given the Government's focus on the sector.

Risk of devolvement of warranties – VSL is exposed to the risk of future devolvement of warranties that it has provided to its customers. Risks arising out of the same are mitigated to an extent by comprehensive acceptance tests undertaken by the company on its solar modules.

Liquidity position: Adequate

VSL's liquidity position is adequate on account of its unutilised working capital limits of ~Rs. 150 crore and regular cash flows from ongoing solar project execution. Moreover, VSL's term debt repayment schedule is prolonged with ~Rs. 30-35 crore of payments annually. ICRA expects VSL to generate adequate cash flows vis-a-vis its debt repayment liabilities.

Rating sensitivities

Positive triggers – VSL's ratings can be upgraded if healthy performance results in Total debt/EBITDA of less than 2 times. Healthy order book position, providing visibility of revenues would also be supportive of a positive rating action.

Negative triggers – The company's ratings can be downgraded/Outlook changed to Negative if a slowdown in order execution results in RoCE less than 15% on a sustained basis. Total Debt/EBITDA of more than 3 times could also be a trigger for a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the standalone financials of VSL.

About the company

Vikram Solar Limited (VSL), promoted by the Kolkata-based Vikram Group, is a solar photo voltaic (PV) module manufacturing company. The company started its commercial operations in September 2009 and as on date has 1,000 MW of solar PV module capacity in its plants at the Falta Special Economic Zone (FSEZ) in West Bengal. In addition, VSL undertakes engineering, procurement, and construction (EPC) of solar power plants and operates and sells power from a 10-MW solar power plant.

As per provisional results, VSL registered a profit after tax of Rs. 12.1 crore on an operating income of Rs. 1,575.5 crore in FY2020. In FY2019, the company registered a profit after tax of Rs. 34.8 crore on an operating income of Rs. 1,939.4 crore.

Key Financial Indicators (Standalone, Audited)

	FY2018	FY 2019	FY2020[2]
Operating Income (Rs. crore)	1895.9	1939.4	1575.5
PAT (Rs. crore)	43.3	34.8	12.1
OPBDIT/ OI (%)	7.24%	8.89%	9.52%
RoCE (%)	12.54%	14.75%	11.32%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	1.6	1.3
Total Debt/OPBDIT (times)	5.1	3.5	3.2
Interest coverage (times)	2.0	1.9	1.7
DSCR	1.6	1.2	1.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[2] Provisional

Rating history for last three years

	Instrument	Current Rating (FY2021) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating 08-June-2020	Chronology of Rating History for the past 3 years: Date & Rating in FY2020 30-May 2019	Date & Rating in FY2019 20-Sept-18	Date & Rating in FY2018 13-Dec-17
1	Term Loan	Long Term	210	199	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Positive)	
2	Cash Credit	Long Term	433	287	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)
3	Non-Fund based-Working Capital Facilities	Short Term	1657	820	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	2013-2017	9.5%	FY2020-FY2032	210	[ICRA]A- (Stable)
NA	Cash Credit	NA	NA	NA	433	[ICRA]A- (Stable)
NA	Non-fund based Working Capital Facilities	NA	NA	NA	1657	[ICRA]A2+

Source: Vikram Solar Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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