

## Press Release

**Sungrace Energy Solutions Private Limited**

October 22, 2018



**Rating Reaffirmed**

<b>Total Bank Facilities Rated*</b>	Rs. 11.00 Cr.
<b>Long Term Rating</b>	ACUITE BB- / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A4

\* Refer Annexure for details

### Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 11.00 crore bank facilities of Sungrace Energy Solutions Private Limited (SESPL). The outlook is '**Stable**'.

The rating reaffirmation reflects sustenance of the revenue growth in line with the estimates. The revenues have improved from Rs.26.93 crore in FY2017 to Rs.35.11 in FY2018 (Provisional). Profitability margins have improved at operating level owing to improvement in the scale of operations. The rating reaffirmation also factors in healthy capital structure. However, the increase in the revenues have impacted the Gross Current Asset (GCA) days which has increased to about 200 days in FY2018 against 147 days in FY2017.

Incorporated in 1999, SESPL is into manufacturing of wide range of solar products such as solar PV modules, solar lanterns, solar street lights, solar water pumps and a host of other customised solar products. The manufacturing unit of the company is located in Hyderabad, Telangana with an installed capacity to manufacture 50 MW solar panels per annum.

### Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the SESPL to arrive at this rating.

### Key Rating Drivers

#### Strengths

- Experienced management and improvement in revenue profile**

SESPL is promoted by Mr. Ravi Kumar and Mr. Pavan Kumar along with two other directors, who possess around two decades of experience in the solar business. The company was incorporated in 1999 and gradually expanded to the present total capacity of 50 MW solar panels per annum at its plant in Hyderabad, Telangana.

SESPL has a competent management supported by a team of well qualified and experienced second line personnel. The company has an established relationship with government entities such as Meghalaya Non- Conventional and Rural Energy Development Agency (MNREDA), Jharkhand Renewable Energy Development Agency Limited (JREDA) and Non-conventional Energy Development Corporation of Andhra Pradesh Limited (NREDCAP) among others.

As on September 2018, the company has an unexecuted order book of Rs.36.00 crore which would provide revenue visibility over the next 10 months. The established relations and timely deliverables have supported in revenue growth at a compound annual growth rate (CAGR) of about 26 percent over the past three years through FY2018 at Rs.35.11 crore (Provisional). The growth is as a result of continuous order inflow from the government agencies. Acuité believes that SESPL enjoys the benefit of the promoters' experience and continuous order inflows to improve the business risk profile over the mediumterm.

- **Healthy financial risk profile**

SESPL's financial risk profile is marked by healthy capital structure and debt protection metrics. The gearing (debt-to-equity) is healthy at 0.82 times in FY2018 (Provisional), marginal improvement from 0.91 times in FY2017; due to moderate profitability margins, low reliance on working capital debt while efficiently managing the creditors and repayment of term loans. Net worth is modest at Rs.7.39 crore as on March 31, 2018 (Provisional). SESPL's debt protection metrics of net cash accruals to total debt and interest coverage ratios are healthy at 0.40 times and 5.90 times in FY2018 (Provisional) vis-à-vis 0.23 times and 3.01 times in FY2017, respectively. SESPL's cash accruals are Rs.2.43 crore in FY2018 (Provisional), against which its repayment obligations are moderate at about Rs.0.24 crore. Acuité believes that the financial risk profile is expected to be at similar levels due to absence of major debt funded capex plans over the medium term.

### Weaknesses

- **Intense working capital operations**

SESPL has intense working capital operations as evident from Gross Current Assets (GCA) of 200 days as on March 31, 2018 (Provisional) as against 147 days as on March 31, 2017. The high GCA days were mainly due to moderate inventory and high debtor levels. The inventory days are moderate at 36 in FY2018, since the entity maintains inventory levels of 30-45 days. The entity's debtor days stood at 137 days as on March 31, 2018 (Provisional) due to supplies to Government Departments and high amount of sales in the last quarter.

To augment the working capital requirement, it avails moderate credit of about 60 days from its creditors. Strong counterparty risk and moderate credit from the suppliers supported in moderate utilisation of working capital limits at about 70 percent over the past six months through August 2018. Acuité believes that with improving scale of revenues, the working capital requirements are expected to increase though partly supported by moderate cash accruals and absence of capex plans over the medium term.

### Outlook: Stable

Acuité believes that SESPL will maintain a 'Stable' outlook over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' in case of sustained improvement in the revenues while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations leading to deterioration of its financial risk profile and liquidity.

### About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	35.11	26.93	17.41
EBITDA	Rs. Cr.	7.99	2.28	1.54
PAT	Rs. Cr.	5.35	0.95	0.63
EBITDA Margin	(%)	22.75	8.48	8.83
PAT Margin	(%)	15.24	3.53	3.60
ROCE	(%)	59.12	22.06	15.95
Total Debt/Tangible Net Worth	Times	0.58	0.91	1.65
PBDIT/Interest	Times	11.53	3.01	2.85
Total Debt/PBDIT	Times	0.76	2.00	3.89
Gross Current Assets (Days)	Days	192	147	365

### Status of non-cooperation with previous CRA (if applicable)

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
13-Oct-2017	Cash Credit	Long Term	4.50	ACUITE BB-/Stable (Assigned)
	Secured Overdraft	Long Term	1.00	ACUITE BB-/Stable (Assigned)
	Proposed Cash Credit	Long Term	1.00	ACUITE BB-/Stable (Assigned)
	Bank Guarantee	Short Term	4.50	ACUITE A4 (Assigned)

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BB- / Stable (Reaffirmed)
Overdraft	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB- / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A4 (Reaffirmed)

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**About Acuité Ratings & Research:**

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