

Press Release

Sungrace Energy Solutions Private Limited

December 29, 2020



Rating reaffirmed

| | |
|-------------------------------------|----------------------------------|
| Total Bank Facilities Rated* | Rs. 11.00 Cr. |
| Long Term Rating | ACUITE B+/Stable (Reaffirmed) |
| Short Term Rating | ACUITE A4 (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and the short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.11.00 Crore bank facilities of Sungrace Energy Solutions Private Limited. The outlook is '**Stable**'.

About the Company

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 customized 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 profile of SESPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and reputed clientele**

SEGPL 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.

SEGPL has 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.

Acuité believes that the company will continue to derive benefit from its experienced management and reputed clientele.

Weaknesses

- **Average financial risk profile and decline in revenue and profitability**

Company's financial risk profile remained average marked by average net worth, low gearing and weak debt protection metrics. The net worth of the company stood at Rs.9.56 Crore as on 31 March 2020 (Provisional) as against Rs.9.47 Crore as on 31 March 2019. The gearing level (debt-equity) stood at 0.55 times as on 31 March 2020 (Provisional) as against 0.58 times as on 31 March 2019. The total debt of Rs.5.21 Crore as on 31 March 2020 (Provisional) consists of long term debt of Rs.0.10 Crore and working capital borrowings of Rs.5.11 Crore. The interest coverage ratio (ICR) declined to 1.46 times in FY2020 (Provisional) as against 5.74 times in FY2019 due to low EBITDA during the year. NCA/TD (Net Cash Accruals to Total Debt) ratio declined

to 0.06 times in FY2020 (Provisional) as against 0.41 times in FY2019. Debt to EBITDA stood at 5.40 times in FY2020 (Provisional) as against 1.45 times in FY2019.

The Company have shown a significant decline in FY2020 (Provisional). Operating Income for FY2020 (Provisional) decline by 41 percent and stood at Rs.17.08 Crore as against Rs.29.01 Crore for the FY2019. The decline in the revenue is due to delay in the execution due to elections period and disputes against local communities. The EBITDA Margins have also declined and stood at 5.65 percent for FY2020 (Provisional) as against 12.45 percent in FY2019. This is mainly due to decline in raw material cost. The PAT margin also decline significantly to 0.52 percent in FY2020 (Provisional) from 7.15 percent in FY2019. In the current financial year, the Covid-19 Pandemic caused great disruption in the company. The operations were closed during the month of March, April and May. The company had resumed its operation from the mid of May. As of 10-12-2020, the company have achieved total revenue of ~Rs.17.00 Crore.

• **Intensive Working capital management**

The working capital management of the company stood highly intensive in FY2020 (Provisional) marked by high Gross Current Assets (GCA) of 463 days in FY2020 (Provisional) as against 213 days in FY2019. The inventory and debtor levels stood at 59 days and 243 days in FY2020 (Provisional) as against 10 and 161 days in FY2019, respectively. The company usually has to maintain high amount of raw material inventory. The creditor days stood at 62 days in FY2020 (Provisional) as against 53 days in FY2019. As a result, the average utilization of bank limits stood high at ~90 per cent in the last six months ending September 2020.

Acuité believes that the working capital requirements will continue to remain highly intensive over the medium term on account of high GCA days.

Rating sensitivity

- Significant decline in revenue in FY2020 due to slower execution of orders.

Material Covenant

None

Liquidity position: Adequate

The Company has adequate liquidity marked by low net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.30 Crore in FY2020 (Provisional) as against no significant debt maturity obligation for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.1.60 Crore to Rs.2.60 Crore during FY2021-23 as against no significant debt maturity obligation for the same period. The company's working capital operations are highly intensive marked by gross current asset (GCA) days of 463 days in FY2020 (Provisional). As a result, the average utilization of bank limits stood high at ~90 per cent in the last six months ending September 2020. Company maintains unencumbered cash and bank balances of Rs.0.09 Crore as on 31 March 2020 (Provisional). The current ratio stands at 1.59 times as on 31 March 2020 (Provisional).

Outlook: Stable

Acuité believes that the outlook of SESPL will remain 'Stable' over the medium term owing to its experienced management and long standing relationships with customers. The outlook may be revised to 'Positive' if the company achieves higher than expected revenue and profitability while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' if the company undertakes higher than expected debt funded capital expenditure resulting in deterioration in its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

| | Unit | FY20 (Provisional) | FY19 (Actual) |
|-------------------------------|---------|--------------------|---------------|
| Operating Income | Rs. Cr. | 17.08 | 29.01 |
| PAT | Rs. Cr. | 0.09 | 2.07 |
| PAT Margin | (%) | 0.52 | 7.15 |
| Total Debt/Tangible Net Worth | Times | 0.55 | 0.58 |
| PBDIT/Interest | Times | 1.46 | 5.74 |

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|------------------|---------------------------------|------------|-----------------|---------------------------------------|
| 27-December-2019 | Cash Credit | Long Term | 4.50 | ACUITE B+ (Downgraded: Indicative) |
| | Secured Overdraft | Long Term | 1.00 | ACUITE B+ (Downgraded: Indicative) |
| | Bank Guarantee | Short Term | 4.50 | ACUITE A4 (Indicative) |
| | Proposed Cash Credit | Long Term | 1.00 | ACUITE B+ (Downgraded: Indicative) |
| 22-October-2018 | Cash Credit | Long Term | 4.50 | ACUITE BB-/Stable (Reaffirmed) |
| | Secured Overdraft | Long Term | 1.00 | ACUITE BB-/Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 4.50 | ACUITE A4 (Reaffirmed) |
| | Proposed Cash Credit | Long Term | 1.00 | ACUITE BB-/Stable (Reaffirmed) |
| 13-October-2017 | Cash Credit | Long Term | 4.50 | ACUITE BB-/Stable (Assigned) |
| | Secured Overdraft | Long Term | 1.00 | ACUITE BB-/Stable (Assigned) |
| | Bank Guarantee | Short Term | 4.50 | ACUITE A4 (Assigned) |
| | Proposed Cash Credit | Long Term | 1.00 | ACUITE BB-/Stable (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 B+/Stable (Reaffirmed) |
| Secured Overdraft | Not Applicable | Not Applicable | Not Applicable | 1.00 | ACUITE B+/Stable (Reaffirmed) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 4.50 | ACUITE A4 (Reaffirmed) |
| Proposed Cash Credit | Not Applicable | Not Applicable | Not Applicable | 1.00 | ACUITE B+/Stable (Reaffirmed) |

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About Acuité Ratings & Research:

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