

Press Release

Solar Idea Private Limited (SIPL)

29 January, 2018



Rating Assigned

Total Instruments Rated*	Rs.7.55 Cr
Long Term Rating	SMERA BB-/Outlook: Stable
Short Term Rating	SMERA A4+

**Refer Annexure for details*

Draft Rating Rationale

SMERA has assigned long term rating of '**SMERA BB-**' (read as **SMERA double B minus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four Plus**) on the bank facilities of Rs.7.55 Crore of Solar Idea Private Limited (SIPL). The outlook is '**Stable**'.

About the Rated Entity

Established in the year 2014, SIPL is into Manufacturing of wide range of solar products such as off grid Inverters, Water Heaters, Street Lights, Solar Fencing, Lanterns, Lithium ion Batteries, Street Light Poles, Module Mounting Structures and Electrical Panels. The manufacturing unit of the company is located in area of Cherlapally in Telengana. SIPL is the authorized distributor of generators of Greaves Cotton Limited. SIPL is actively managed by Mr. Sarvotham Reddy & Mr. Srinivas Reddy.

Key Rating Drivers

Strengths

Experienced Management

SIPL is managed by Mr. Sarvotham Reddy & Mr. Srinivas Reddy. Before the incorporation of SIPL, Mr. Sarvotham Reddy has served many companies. He worked as a credit officer & general manger in Capital one financial services. He also worked as a Logistics Analyst in Kawasaki Motors. The other member of the board, namely, Mr. Raju, who is an M.B.A, looks after the financial aspects of the company. Mr. Praveen Budia looks after the functioning of online marketing channels on which the Company's products are placed. Mr. Sarvotham Reddy & Mr. Srinivas Reddy look after the technical aspects of the business.

Average financial risk profile

SIPL's financial risk profile is marked by net worth of Rs.1.99 Crore in FY2017 as compared to Rs.1.21 Crore in FY2016. This increase in net worth is on account of plough back of profits and also due to equity infusion of Rs.0.50 crore in FY2017. 6. The Interest Coverage Ratio (ICR) stood at 2.87 times in FY2017. The Debt Service Coverage Ratio (DSCR) stood at 2.64 times.

Favorable Government Policies

Various state Governments are focusing on solar power plants installation to increase the solar power-installed capacity in the country. The declining solar power tariff has encouraged good investments into the sector. To boost the solar power generation in the country, the Government of India has announced various policies and regulations, such as, accelerated depreciation, capital subsidy, Renewable Energy Certificate(RECs), Net Metering Incentives, Assured Power Purchase agreement etc.

Weaknesses

Working capital intensive nature of operations

SIPL's nature of operations is working capital intensive marked by high Gross Current Asset days of 199 days in FY2017. Such high GCA days are mainly on account of high debtor days of 107 days. The debtor days varies from cash and carry to 90 days. Also, the amount is received in instalments. Moreover, the company also caters to many of the Government departments, builders, corporate and educational institutions.

Competitive and fragmented industry

The industry is highly fragmented and the presence of large number of un-organized players leads to high level of competition putting pressure on margins. Solar product industry is marked by several mid to large size players. The industry is also marked by Chinese goods, which puts a pricing pressure for company. The risk becomes more pronounced as the industry is very price sensitive.

Tender based business

The nature of operations is tender based. The company caters to Government organizations as well as Institutional players. Going forward, the ability of the company to bid for large orders and qualify for the same would influence the financials of the company. However, the promoter's experience and relations with clientele, partially mitigates this risk.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Solar Idea Private Limited to arrive at the rating.

Outlook: Stable

SMERA believes that SIPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management and healthy demand of solar products. The outlook may be revised to 'Positive' in case the company registers a substantial increase in its scale of operations while achieving better profit margins. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability in revenues amidst intensifying competition

About the Rated Entity - Key Financials

Particulars	Unit	FY17	FY16	FY15
Operating Income	Rs. Cr.	15.02	11.49	1.07
EBITDA	Rs. Cr.	0.66	0.38	0.07
PAT	Rs. Cr.	0.28	0.19	0.03
EBITDA Margin	(%)	4.37	3.30	6.64
PAT Margin	(%)	1.89	1.64	2.40
ROCE (%)	(%)	14.25	13.79	6.95
Total Debt/Tangible Net Worth	Times	1.47	0.78	0.10
PBDIT/Interest	Times	2.87	9.98	60.66
Total Debt/PBDIT	Times	4.47	3.49	1.41
Gross Current Assets (Days)	Days	199	135	382

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

None

Any other information

None

Applicable Criteria

- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument:

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

Rating History (Upto last three years)

None

Annexure – Details of instruments rated

SMERA Ratings Limited

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Available	5.00	SMERA BB-/Stable
Term Loan	Not Applicable	Not Applicable	Not Available	1.05	SMERA BB-/Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Available	1.00	SMERA A4+
Letter of Credit	Not Applicable	Not Applicable	Not Available	0.50	SMERA A4+

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ABOUT SMERA

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