

Press Release

Novus Green Energy Systems Limited

February 09, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.75.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.75.00 crore bank facilities of Novus Green Energy Systems Limited (NGES). The outlook is '**Stable**'.

About the Company

Incorporated in 2009, Novus Green Energy Systems Limited (NGES) is a Hyderabad, Telangana based company. It is engaged in the installation of solar water pumps and solar power plants (both rooftop and ground mount). The day to day operations are managed by Mr. Y. Anshuman and Mr. Y. Venkata Ravindra. Company has installed a manufacturing unit of solar modules with a capacity of 160MV whose commercial operations have started from February, 2020.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of NGES to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced Management**

NGES commenced operations from 2009. The company is promoted by its directors, Mr. Y. Anshuman, Mr. Y. Venkata Ravindra and Mrs. Pariplavi Mokkapati who have experience of more than a decade in the solar industry. The extensive experience has enabled the company to forge healthy relationships with customers marked by healthy order book of Rs. 540.60 crore out of which Rs.88.96 crore is executed and rest Rs.451.64 crore is expected to be executed by around FY2022-23.

Acuité believes that the company will continue to benefit from its experienced management and established relationships with customers.

- Reputed Clientele**

NGES has a reputed customer base which includes Chhattisgarh Renewable Energy Development Agency, Madhya Pradesh Urja Vikas Nigam Limited, Indian Institute of Technology, Eastern Power Distribution Company of Andhra Pradesh Ltd (APEPDCL), etc. Revenue from top 10 customers consist of around 66 percent out of the total revenue. This mitigates customer concentration risk.

Weaknesses

- Deterioration in scale of operations and Profitability**

NGES registered decline in revenue of around 29.63 percent in the financial year 2020 marked by Rs.105.70 crore from Rs.150.21 crore in FY2019. This is majorly due to delay in receipt of payments and delay in floating of new tenders. However, revenues will be around Rs.160.00 crore for FY2021 at the back of healthy order book and also marked by revenues of Rs.98.94 crore for the period April to December, 2020 as against Rs.47.86 crore for the same period in FY2020. Operating margins deteriorated to 7.94 per cent in FY2020 from 12.32 per cent in FY2019. This is majorly because of the cost incurred for the work orders whose receipts of payments got delayed. Margins will remain stable at around 11 per cent in FY2021 due to usage of own manufactured solar modules in the new unit and also from the sells of the same.

Acuité believe that the scale of operations and profitability will improve in near medium term at the back of healthy order book of around Rs. Rs.540.60 crore out of which Rs.451.64 crore is expected to be executed by around FY2022-23. Further, company has installed a new manufacturing unit of solar modules whose 50 per cent production will be utilised for captive consumption and rest for the retail sells.

- **Average financial risk profile**

The financial risk profile of the company is average marked by moderate net worth, high gearing and low debt protection measures. Net worth stood at Rs.30.78 crore as on 31 March 2020 as against Rs.29.01 crore in the previous year. Gearing (debt-equity) of the company stood high at 2.34 times as on 31 March 2020 as against 0.97 times as on 31 March 2019. Total debt of Rs.71.97 crore consist term loan of Rs.19.36 crore, unsecured loans of Rs.2.33 crore and working capital loan of Rs. 50.29 crore. The Interest Coverage Ratio (ICR) deteriorated to 1.52 times for FY2020 from 4.92 times for FY2019. Debt Service Coverage Ratio (DSCR) deteriorated to 1.42 times for FY2020 from 3.60 times for FY2019. Total outside liabilities to tangible net worth (TOL/TNW) deteriorated to 4.15 times for FY2020 from 2.70 times for FY2019.

Acuité believes that financial risk profile has deteriorated significantly due to increase in debt levels and deterioration in scale of operations and net cash approvals. Company availed Rs.20.15 crore term loan for setting up new solar module manufacturing unit along with enhancement in cash credit facility to Rs.50.00 crore.

- **Working capital intensive operations**

The operations of NGES are working capital intensive evident from the Gross Current Assets (GCA) days of 373 in FY2020 as against 208 in FY2019. This is majorly on account of high debtor days marked by 234 in FY2020 as against 166 days in FY2019. Further, inventory days stood at 80 in FY2020 as against 22 days in FY2019. The working capital limit stood fully utilized for the last six months ended December, 2020. Acuité believes that the scale of operations will remain sensitive because of the nature of the business.

- **Highly competitive Industry**

Company faces competition from many organized players in installing solar power plants and solar water pumps which limits its pricing flexibility and bargaining power with customers. And it, therefore, make margins vulnerable.

Liquidity Position: Adequate

NGES has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2.79 crore in FY2020 as against Rs.10.74 crore in FY2019, while its maturing debt obligation was around Rs.0.23 crore and Rs.0.21 crore for the same period. The company's working capital operations are intensive as marked by high Gross Current Asset (GCA) days of 373 in FY2020. Further, the reliance on working capital borrowings is high, the cash credit limit in the company remains fully utilized during the last 6 months' period ended December, 2020. The company maintains unencumbered cash and bank balances of Rs.0.02 crore as on March 31, 2020. The current ratio of the company stands at 1.17 times as on March 31, 2020.

Acuité believes that the liquidity position will improve in near medium term due to expected growth in scale of operations and profitability backed by new manufacturing unit of solar modules and healthy order book.

Outlook: Stable

Acuite believes that NGES will continue to benefit over the medium term from the promoters experience and order book position. The outlook may be revised to 'Positive' if the firm achieves more than envisaged sales while improving its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and profitability and the financial risk profile further deteriorates owing to higher-than-expected increase in debt-funded working capital requirement.

Rating Sensitivities

- Significant improvement in scale of operations along with profitability.
- Stretch in working capital cycle and deterioration in liquidity position.

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Crore	105.70	150.21
Profit after tax (PAT)	Rs. Crore	0.86	10.05
PAT margin	%	0.82	6.69
Total debt / Tangible Net worth	Times	2.34	0.97
PBDIT / Interest	Times	1.52	4.92

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure sector - <https://www.acuite.in/view-rating-criteria-51.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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
30-Dec-2019	Term Loan	Long Term	20.15	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	22.00	ACUITE BBB-/Stable (Assigned)
	Proposed Bank Facility	Long Term	0.85	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	32.00	ACUITE A3 (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
Term Loan	Not Available	Not Applicable	Not Applicable	18.56	ACUITE BBB-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BBB-/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.44	ACUITE BBB-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	32.00	ACUITE A3 (Reaffirmed)

*Inland LC/BG sublimit of CC of Rs.2.00 crore.

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About Acuité Ratings & Research:

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