

Press Release

Vikram Solar Limited

September 13, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1633.79	-	ACUITE A1 Reaffirmed
Bank Loan Ratings	666.21	ACUITE A Negative Reaffirmed Stable to Negative	-
Total Outstanding Quantum (Rs. Cr)	2300.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE A**' (read as **ACUITE A**) and the short term rating of '**ACUITE A1**' (read as **ACUITE A one**) on the Rs. 2300.00 Cr bank facilities of Vikram Solar Limited (VSL). The outlook has been revised from '**Stable**' to '**Negative**'.

The outlook revision is primarily driven by a considerable stretch in their working capital management thereby impacting the liquidity position of the company. Also, the company's performance in FY'2022 has witnessed a very significant deterioration resulting in cash losses and also leading to weak debt protection measures. However, Acuite also notes the company's strong recovery in the current financial year reflected in their turnover growth, improved profitability and reduced debtors.

The rating on VSL continues to consider the strong market position of the company in both the domestic and the global solar energy solutions industry. The rating also derives comfort from the healthy order book position buoyed by increasing demand for solar power. Further, it is also supported by the management's long track record in the sector and the recent capacity expansion that leading to a substantial ramp up in their scale of operations.

About the Company

Incorporated in 2006, Vikram Solar Limited (VSL) is a Kolkata based company engaged in providing solar energy solutions, manufacturing and exporting PV modules and undertakes engineering, procurement, and construction (EPC) of solar power plants. Currently, the company is headed by Mr. Hari Krishna Chaudhary and Mr. Gyanesh Chaudhary along with a set of experienced professional individuals. VSL has its manufacturing facility located in Falta Special Economic Zone (FSEZ) in West Bengal with an installed capacity of 1.2 GW of solar PV module and in Chennai with an installed capacity of 1.3 GW of solar PV module. In addition to this, the company operates and sells power from a 10 MW solar power plant, which has a long term power purchase agreement with the Tirupati temple.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of VSL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and established relationship with customers**

Established in 2006, the company has been operational for more than fifteen years. The key promoters, Mr. Hari Krishna Chaudhary and Mr. Gyanesh Chaudhary have been engaged in solar business for a decade by virtue of their association with this company. This has helped the company in establishing relationships with suppliers and acquiring keen understanding of project bidding process thus ensuring uninterrupted supply of raw materials and inflow of work orders. Moreover, the extensive experiences of promoters have helped the company to maintain a robust order book. Acuité believes the company will continue to benefit from experienced promoters that will help to maintain long-term relations with customers and suppliers.

- **Healthy order book position**

The company has an unexecuted order book position of around Rs. 9500 Cr as on 30.06.2022. These orders include both EPC contracts as well as supplying of PV modules in the domestic market as well as exports. The company's order book position continues to remain strong as on date, which provides revenue visibility for the near to medium term. The company has registered consistent EPC order inflows from NTPC Ltd and other state distribution companies. Moreover, the company has received a large order from a reputed player under variable price contract, where EBITDA margins are defined

Acuité believes the company's strong execution capabilities backed by its expertise in design and engineering of grid connected/off-grid solar PV projects, has helped the company in generating healthy orders over the years. These orders were primarily secured from large reputed customers that reduce counterparty risks, and in turn, are expected to ensure timely realization of receivables.

- **Enhanced capacity coupled with positive industry outlook**

In order to meet the growing demand from the domestic market the company has already completed a capex and has set up a manufacturing unit in Chennai at a total cost of Rs 132 Cr. The installed capacity of the unit is ~ 1.3 GW and the plant has started operations in the month of February 2022 and presently operating at 90 per cent capacity. The facility being set in Chennai brings geographical diversity with wider national presence. With full year of operations of the plant, the volume and revenue of VSL would further enhance in the current year.

Additionally, Government of India's thrust on developing solar capacity in India and increase in the Basic Customs duty (BCD) on solar modules to 40% and solar cells to 25% with effect from April 2022, will enable the company to boost sales and increase profitability margins going forward.

Further, in the export market USA government has imposed anti-dumping duty as high as 200% on the import of modules from China. The European Union has resolved to lower its dependency on imports of energy requirement from Russia due to ongoing Russia-Ukraine conflict. The European nations are looking for options beyond China to cater its energy needs and with no other alternative source the demand from Indian renewable energy is bound to happen.

- **Significant improvement in performance in Q1 of FY2023**

The company's performance has improved manifold in the current fiscal through execution of variable price contract, better supply chain arrangement and better negotiations on freight rates in the Q1 of FY 2023, where it has achieved a turnover of Rs. 700 Cr (prov). Further, EBITDA levels have improved significantly where the company has achieved a EBITDA of Rs 50 crore in the first quarter i.e a operating margin of 7.14 per cent (prov).

Moreover, in the current year the company is expecting a turnover of more than Rs. 3000 Cr on account of its healthy order book position. Also, with price-escalation clause coming into picture, the burden of the raw material cost would fall onto the final customer. The prices of the raw material cost have increased by 35 per cent since last year, so consequently the selling prices have also increased. Increase in the prices coupled with increase in volume of operations thus ensuring a substantial increase in turnover as well as at a steady profitability.

- **Upcoming IPO to boost the operations**

The company is planning for an Initial Public Offering (IPO) in the current calendar year. The Draft Red Herring Prospectus (DRHP) has been filed on March 24, 2022. The expected amount of fresh issue is Rs. 1500 Cr, which will be distributed among VSL (Rs. 250 Cr) and VSL Re Power Private Limited (Rs. 1250 Cr). VSL Re Power Private Limited, which is a 100 per cent subsidiary of VSL, will be using the fund for new project development to build a fully integrated manufacturing plant. The plant will be able to manufacture 2 GW of Solar cell and 2 GW of Solar Module and the expected date of commercial operation is November 2023. Acuité believes that any delays in the IPO from the envisaged period could cause a negative bias to the rating.

Weaknesses

- **Moderate financial risk profile**

The company's moderate financial risk profile is marked by healthy network, moderate gearing and weak debt protection metrics. The tangible net worth of the company declined to Rs.435.62Cr as on March 31, 2022 from Rs.494.71 Cr as on March 31, 2021 due to losses incurred in FY2022. Acuité has considered unsecured loans of Rs.84.87 Cr as on March 31, 2022, as quasi-equity as the management has undertaken to maintain the amount in the business over the medium term. Gearing of the company stood moderate as Debt-to-Equity ratio stood at 1.50 as on March 31, 2022 as compared to 1.17 as on March 31, 2021. The weak debt protection metrics of the company is marked by weak Interest Coverage Ratio (ICR) at 0.64 times as on March 31, 2022 and Debt Service Coverage Ratio (DSCR) at 0.57 times as on March 31, 2022. Acuité believes that going forward the financial risk profile of the company will improve backed by improving accruals and no major debt funded capex plans.

- **Working capital intensive nature of operations**

The working capital-intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 313 days as on March 31, 2022 as against 249 days as on March 31, 2021. The high GCA days are on account of high debtor period which stood at 193 days as on March 31, 2022 as compared to 147 days as on 31st March 2021. The clients of EPC segment are the primary debtors of the company, NTPC Limited, West Bengal State Electricity Distribution Co. Ltd (rated at ACUITE BBB/Stable/A3+), West Bengal Power Development Co. Ltd. (rated at ACUITE A-/Stable/A2+), Indian Oil Corporation Limited, Hindustan Petroleum Co. Ltd., Rays Power Infra Private Limited, to name a few. However, the inventory holding level is comfortable at 58 days as on March 31, 2022 as compared to 50 days as on March 31, 2021. Going forward, Acuité expects improvement in their working capital management mainly due to the company's increased focus on manufacturing activities and reduced dependence on EPC contracts.

ESG Factors Relevant for Rating

The industry's exposure to environmental risks is lower than its social and governance risks. The primary material issues for the industry include efficient use of energy, putting environmental management structures in places, GHG emissions, development of green

products and services and emitting air pollutant emissions. Since the industry has a large amount of e-waste generation in manufacturing process as well as end use, waste management is also a key material issue. Material efficiency is also important for the industry. In social aspect, the quality of the product and the safety of the employees are important material issues. The community support and development initiatives taken by the companies in the industry are also a significant factor. Responsible procurement and supply chain transparency are crucial for evaluating the performance of the industry players.

On governance front, upholding fundamental business ethics is the most pertinent material issue in this industry. Factors such as management compensation, board independence, compensation and diversity are relevant to the industry. Audit committee functioning, financial audit and control, takeover defense mechanisms and shareholder rights are also important key issues.

Rating Sensitivities

- **Successful IPO within the stipulated timelines**
- **Growth in revenues along with improvement in profitability margins**
- **Any further elongation in working capital cycle**
- **Reduction in order flow**

Material covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by the cash and bank balances of the company, which stood at Rs.16.82 Cr as on March 31, 2022 as compared to Rs.3.07 Cr as on March 31, 2021. The fund-based limit remains utilised at 83 per cent over the thirteen months ended June 2022. However, the current ratio stood moderate at 1.04 times as on March 31, 2022. The working capital-intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 313 days as on March 31, 2022 as against 249 days as on March 31, 2021. Further, the company has incurred loss in FY2022 primarily due to dip in global industrial scenario. Acuité believes that going forward the company will improve its liquidity position due to steady accruals, on account of positive outlook of industry and healthy order book position.

Outlook: Negative

Acuité has revised the outlook to 'Negative' on account of deterioration in the working capital management and business performance in FY'22. The rating may be 'downgraded' in case the company fail to launch the IPO within the planned timelines or in case VSL achieves lower than anticipated revenues or in case of any decline in profitability metrics. The outlook may be revised to 'Stable' in case VSL registers significant growth in its revenue while improving the profitability levels and able to launch the IPO in a timely leading to a marked improvement in their leverage ratios and debt coverage indicators.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1709.00	1589.50
PAT	Rs. Cr.	(60.14)	37.14
PAT Margin	(%)	(3.52)	2.34
Total Debt/Tangible Net Worth	Times	1.50	1.17
PBDIT/Interest	Times	0.64	1.93

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
	Term Loan	Long Term	49.74	ACUITE A Stable (Assigned)
	Working Capital Term Loan	Long Term	4.00	ACUITE A Stable (Assigned)
	Letter of Credit	Short Term	50.00	ACUITE A1 (Assigned)
	Cash Credit	Long Term	50.00	ACUITE A Stable (Assigned)
	Bank Guarantee	Short Term	170.00	ACUITE A1 (Assigned)
	Bank Guarantee	Short Term	277.00	ACUITE A1 (Assigned)
	Term Loan	Long Term	119.64	ACUITE A Stable (Assigned)
	Letter of Credit	Short Term	12.00	ACUITE A1 (Assigned)
	Bank Guarantee	Short Term	50.00	ACUITE A1 (Assigned)
	Cash Credit	Long Term	110.00	ACUITE A Stable (Assigned)
	Working Capital Term Loan	Long Term	1.00	ACUITE A Stable (Assigned)
	Cash Credit	Long Term	40.00	ACUITE A Stable (Assigned)
	Letter of Credit	Short Term	105.00	ACUITE A1 (Assigned)
	Working Capital Term Loan	Long Term	18.00	ACUITE A Stable (Assigned)
	Cash Credit	Long Term	60.00	ACUITE A Stable (Assigned)

16 Jun 2021	Bank Guarantee	Short Term	340.00	ACUITE A1 (Assigned)
	Term Loan	Long Term	34.93	ACUITE A Stable (Assigned)
	Bank Guarantee	Short Term	13.00	ACUITE A1 (Assigned)
	Bank Guarantee	Short Term	20.00	ACUITE A1 (Assigned)
	Letter of Credit	Short Term	73.00	ACUITE A1 (Assigned)
	Term Loan	Long Term	0.80	ACUITE A Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A1 (Assigned)
	Term Loan	Long Term	18.00	ACUITE A Stable (Assigned)
	Letter of Credit	Short Term	120.00	ACUITE A1 (Assigned)
	Cash Credit	Long Term	10.00	ACUITE A Stable (Assigned)
	Cash Credit	Long Term	25.00	ACUITE A Stable (Assigned)
		Long		ACUITE A Stable
	Cash Credit	Term	74.00	(Assigned)
	Working Capital Term Loan	Long Term	11.00	ACUITE A Stable (Assigned)
	Term Loan	Long Term	59.50	ACUITE A Stable (Assigned)
	Cash Credit	Long Term	48.00	ACUITE A Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE A Stable (Assigned)
	Proposed Bank Facility	Short Term	23.99	ACUITE A1 (Assigned)
	Bank Guarantee	Short Term	100.00	ACUITE A1 (Assigned)
	Bank Guarantee	Short Term	150.00	ACUITE A1 (Assigned)
	Working Capital Term Loan	Long Term	7.40	ACUITE A Stable (Assigned)
	Letter of Credit	Short Term	40.00	ACUITE A1 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	170.00	ACUITE A1 Reaffirmed
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A1 Reaffirmed
Indian Overseas Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A1 Reaffirmed
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	300.00	ACUITE A1 Reaffirmed
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	277.00	ACUITE A1 Reaffirmed
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE A1 Reaffirmed
Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A1 Reaffirmed
Bank of Baroda	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A1 Reaffirmed
Bandhan Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A Negative Reaffirmed Stable to Negative
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	74.00	ACUITE A Negative Reaffirmed Stable to Negative
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A Negative Reaffirmed Stable to Negative
IDBI Bank	Not		Not	Not	Not		ACUITE A Negative

Ltd.	Applicable	Cash Credit	Applicable	Applicable	Applicable	25.00	Reaffirmed Stable to Negative
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A Negative Reaffirmed Stable to Negative
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A Negative Reaffirmed Stable to Negative
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	48.00	ACUITE A Negative Reaffirmed Stable to Negative
Indian Overseas Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A Negative Reaffirmed Stable to Negative
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	110.00	ACUITE A Negative Reaffirmed Stable to Negative
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	120.00	ACUITE A1 Reaffirmed
Indian Overseas	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A1

BANK Bandhan Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	Reaffirmed ACUITE A1
IDBI Bank Ltd.	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	25.00	Reaffirmed ACUITE A1
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00	Reaffirmed ACUITE A1
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	73.00	Reaffirmed ACUITE A1
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	105.00	Reaffirmed ACUITE A1
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	131.79	Reaffirmed ACUITE A1
Canara Bank	Not Applicable	Term Loan	30-09-2020	9.50	30-06-2024	108.47	ACUITE A Negative Reaffirmed Stable to Negative
Punjab National Bank	Not Applicable	Term Loan	30-09-2020	9	30-06-2024	38.06	ACUITE A Negative Reaffirmed Stable to Negative
Union Bank of India	Not Applicable	Term Loan	30-09-2020	9	30-06-2024	31.23	ACUITE A Negative Reaffirmed Stable to Negative
Indian Overseas Bank	Not Applicable	Term Loan	30-09-2020	11.0	30-06-2024	7.40	ACUITE A Negative Reaffirmed Stable to Negative
Indian Bank	Not Applicable	Term Loan	28-02-2012	9.45	30-09-2023	24.05	ACUITE A Negative Reaffirmed Stable

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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