

Press Release

Icon Solar-En Power Technologies Private Limited

December 23, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	26.69	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	5.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	31.69	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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.31.69 Cr bank facilities of Icon Solar-En Power Technologies Private Limited (ISPTPL). The outlook is '**Stable**'.

Rationale for the rating

The rating reaffirmation is driven by the sustainable performance in the business risk profile of the company backed by established presence in the solar module manufacturing segment. Acuite also notes that the financial risk profile has remained above average with gearing below unity and moderate debt coverage indicators, because of the consistent increase in the networth along with comfortable collection period and sufficient accruals. The ratings also factor in the favourable business outlook for the domestic solar module manufacturers, given the strong policy thrust from the Government of India (GoI), through the imposition of basic customs duty (BCD) on imported solar modules, the requirement of procuring solar modules from suppliers included in Approved List of Module Manufacturers (ALMM), which presently features only domestic suppliers and the production-linked incentive (PLI) for manufacturing high efficiency modules, along with the strong project pipeline in the solar power sector. These strengths are however, partly offset by the volatility in raw material prices and saturation of the company's existing capacity.

About the Company

Incorporated in 2014, Icon Solar-En Power Technologies Private Limited (ISPTPL) is based in Raipur, Chhattisgarh. The company manufactures solar PV modules and has an installed capacity of 125 MW. Since FY2022, the company has started undertaking engineering, procurement, and construction (EPC) of solar power plants. It is currently headed by Mr. Vipin Mirani, Mr. Shakti Kumar Dubey and Mr. Tarang Khurana. ISPTPL is one of the 26 companies to be enlisted on the Approved List of Models and Manufacturers (ALMM) of Ministry of New and Renewable Energy (MNRE) and will be eligible to provide solar modules for government tenders.

Analytical Approach

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

Key Rating Drivers

Strengths

Established presence in solar module manufacturing

ISPTPL is an established player in the solar module manufacturing, with an operational track record of less than a decade. The current operational solar module manufacturing capacity stands at 125 MW. ISPTPL is promoted by Mr. Kanwaljeet Singh Khurana, Mr. Vipin Mirani, Mr. Shakti Kumar Dubey and Mr. Tarang Khurana. Acuité draws comfort from the company's enlistment on the Approved List of Models and Manufacturers (ALMM) of Ministry of New and Renewable Energy (MNRE) which demonstrates its technical competence to manufacture solar modules of superior quality and eligibility to provide solar modules for government tenders.

Growth in the scale of operations coupled with favourable demand scenario

The operating revenue of the company improved to Rs 314.29 Cr in FY 2022 as compared to Rs 240.07 Cr in FY 2021. The demand for cheaper and cleaner sources of energy, with corporates globally setting up decarbonizing goals, has driven the growth of demand for solar modules. Therefore the capacity utilisation which was already hovering around 94 per cent in FY22 went to a saturation point in H1FY23 to meet the upsurge in demand. Additionally, government mandated solar developers to only use ALMM enlisted modules for government projects, which led to the further outsourcing of orders. ISPTPL has an unexecuted healthy order book position of Rs. 95.00 Cr as on 31st of October 2022. With the order pipeline remaining adequate, the revenues are expected to witness healthy growth in the near term, early trends of which can be seen from the revenue of ~Rs. 205.30 Cr recorded till H1FY23 (Prov). The surge in demand supported by both increase in volume and average realization, led to the growth in top line. Supply-Demand mismatch is another major factor contributing to increase in solar module prices.

Above average financial risk profile

The reduction in the debt levels following the repayment of term loans, lower working capital borrowings and a modest net worth position have supported the company's above average capital structure. The tangible net worth of the company improved to Rs. 26.83 Cr as on March 31, 2022 from Rs.22.95 Cr as on March 31, 2021 due to accretion of reserves. Acuité has considered unsecured loans of Rs.8.07 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 improved and stood comfortable below unity at 0.71 times as on March 31, 2022 as compared to 1.15 times as on March 31, 2021. However, the Total outside Liabilities/Tangible Net Worth (TOL/TNW) increased to 3.17 times as on 31st March, 2022 as against 2.23 times as on 31st March, 2021. The consistently increasing raw material price, reduced margin has led to lower than expected net cash accruals, which further led to marginal moderation in the debt protection metrics of the company with Interest Coverage Ratio at 2.45 times and Debt Service coverage ratio at 2.17 times as on 31st March, 2022. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.20 times as on 31st March, 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.

Weaknesses

Profits margins susceptible to volatility in raw material prices

The profitability indicators remain exposed to the volatility in price movements of key raw

materials (RM) like solar cells, glass, back sheet and aluminum, among others. Moreover, given the lack of backward integration and limited capacities in India, the company remains exposed to pricing and availability risks. The high raw material (~90.85 per cent) expenses emanating from the increasing prices of solar cells kept the operating margin under pressure in FY 2022. The company's margins are also impacted by the volatility in commodity price hikes such as glass and metals and significant increase in inward freight charges due to shortage of containers etc. The operating margin declined to 2.50 per cent in FY2022 as compared to 5.77 per cent in the previous year. Also, the PAT margin of the company declined to 0.80 per cent in FY2022 from 3.03 per cent in FY2021. However, the RoCE levels for the company stood comfortable at 13.92 per cent in 2022. Moreover, the company has entered into long term fixed price contracts for purchase of raw materials on receipt of sales order thereby safeguarding itself from raw material price volatility.

Further, the company has gradually reduced the imports of solar cells from China over the period of time and after imposition of export duty (BCD) on solar cells at 25 per cent since April 1st, 2022 the same has now almost reduced to nil. This has helped the company to mitigate the risk of supply chain disruption and therefore improve the turnaround time against import from China. Acuité believes, going forward with reduced dependence on imports, the freight inward costs are expected to decline which will simultaneously improve the profitability margins with lower reliance on working capital requirements.

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 per cent with effect from April 2022, will enable the company to boost sales and increase profitability margins going forward.

Competition from other manufacturers

While the competition from imports is mitigated through policy measures like ALMM and imposition of BCD, the company remains exposed to competition from other domestic manufacturers, especially with the announcement of large expansion plans by existing players and entry of large new players.

Rating Sensitivities

- Improvement in operating profitability while sustaining the growth in scale of operations
- Elongation in working capital cycle
- Addition of new capacities

Material covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by net cash accruals of Rs.3.81 Cr in FY2022 as against long term debt repayment of Rs.2.36 Cr over the same period. Even though overall profits and cash accruals from the business stood at a lower level in FY2022 compared to the previous year, yet they are expected to remain sufficient to meet the scheduled debt obligations. The current ratio also stood moderate at 1.30 times as on March 31, 2022. However, the fund-based limit remains utilised at ~84.83 per cent over the nine months ended October 2022. The company's working capital cycle is moderate as reflected from Gross Current Assets (GCA) of 119 days in FY2022 as compared to 96 days in FY2021 due to significant increase in inventory holding in Q4FY22. The company maintained higher inventory level in the last quarter because of strategic raw material sourcing mainly to alleviate the rising solar cell prices (primary raw material) due to implementation of the Basic Customs Duty of 25 per cent since April 2022 and therefore made inventory gains. However, the debtor period reduced to 29 days as on 31st March 2022 as compared to 40 days as on 31st March

2021 since the company opted for 'cash and carry' form of payment in majority of the contracts. 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: Stable

Acuité believes the company's outlook will remain stable over the medium term on account of its experienced management, improved business risk profile and favourable outlook of the industry. The outlook may be revised to 'Positive' in case the company registers higher than expected growth in revenues while improving its operating margins or improvement in its capital structure. Conversely, the outlook may be revised to 'Negative' in case of higher than expected stretch in the working capital cycle or deterioration in the financial risk profile of the company.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	314.29	240.07
PAT	Rs. Cr.	2.51	7.27
PAT Margin	(%)	0.80	3.03
Total Debt/Tangible Net Worth	Times	0.71	1.15
PBDIT/Interest	Times	2.45	3.55

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>
- 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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Oct 2021	Cash Credit	Long Term	14.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	2.50	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Long Term	0.69	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	1.50	ACUITE BBB- Stable (Assigned)
	Standby Line of Credit	Short Term	2.10	ACUITE A3 (Assigned)
	Working Capital Term Loan	Long Term	3.50	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	1.00	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan	Short Term	1.40	ACUITE BBB- (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	16.00	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	2.09	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	3.50	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.10	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Mar 1 2018 12:00AM	10.55	Mar 31 2023 12:00AM	Simple	2.50	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Sep 1 2016 12:00AM	10.95	Aug 31 2023 12:00AM	Simple	1.50	ACUITE BBB- Stable Reaffirmed

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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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