Topsun Energy Limited

February03, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Bank Facilities- Long Term	31.50	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Assigned
2	Bank Facilities- Short Term	52.20	IVR A4+ (IVR A Four Plus)	Assigned
	Total	**83.70**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Topsun Energy Limited ("TEL" or "the Company") derives comfort fromits experienced promoters, established presence in the solar module manufacturing industry with backward integration and reputed clientele with relatively low counter party payment risk. The ratings also factor in its moderate order book position reflecting satisfactory short term revenue visibility, moderatelycomfortable capital structure with satisfactory debt protection metricsand favorable demand outlook for Solar Modules.These strengths are partially offset by vulnerability of profitability to adverse fluctuation in raw material prices, revenue concentration risk, working capital intensive nature of operations with elongation in operating cycle, tender driven nature of operation which restricts the margins and high competition from large Chinese and domestic players in the industry.

Key Rating Sensitivities

Upward Factors

- Growth in scale of operations with improvement on profitability on a sustained basis.
- Sustenance of the capital structure.
- Improvement in liquidity driven by improvement in cash accruals.

Downward Factors

- Moderation in operating income and moderation in profitability
- Dampening of liquidity position

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

Experienced Promoters:

Topsun Energy Limited is promoted by Mr. Dineshchandra Patel having Diploma in Electricals with an experience of over three decades into various fields. Mr. Chintan Patel, the Managing Director of the company, is a qualified B.E (Bachelors in Electronics and Communication Engineering) with an experience of close to two decades who looks after the marketing function. The promoters have more than two decades of experience in manufacturing solar photovoltaic panel and installing rooftop solar panel and solar water pump. The top management comprises qualified and experienced members, with average experience of a decade.

Established presence in the solar module manufacturing industry with backward integration and required technical certification

TEL is an established player in the solar module manufacturing sector with experience of over a decade. The installed capacity of the solar module manufacturing unit was enhanced from 100 MW to 120 MW in the year 2019. TEL has an operational track record of close a decade where the company has been engaged in design, consulting, EPC and Operations & Maintenance (O&M) services for off-grid as well as on-grid photovoltaic power projects as an integrated solar energy solutions provider. Along with that the operations of the company are partially backward integrated where the company itself manufactures solar PV modules.

Reputed clientele

Company has built up a strong clientele over the years, which is constantly expanding. Some of the reputed clients served by the company are AAI, Indian Oil, ONGC, ISRO, BSNL, Gujarat University, NTPC, GAIL, NEEPCO etc with such strong clientele company expects constant flow of orders and to maintain its steady growth and reduces the counter party default risk.

Moderate order book position reflecting satisfactory short term revenue visibility

The company has been manufacturing two types of products i.e. Mono Crystalline and Multi Crystalline Solar PV modules for which the respective manufacturing facility has been certified and accredited by various national and international regulatory bodies. The company has an order book of Rs.68.44 crore as on November 30, 2019, of which Rs.64.73 crore pertain to EPC contracts and the Rs.3.71 crore for PV module supply contracts. The outstanding order book has to be executed over the period of December' 2019 to March 2019. Furthermore, Total order book comprises half of FY2019 revenues providing short term revenue visibility. The management also contends that there are some high value orders which are in various stages and are expected to materialize in the next 6-12 months which will lead to long term revenue visibility.

Stable financial risk profile marked by moderate capital structure and satisfactory debt protection metrics

The total operating income of the company remained almost stagnant with a marginal growth over the past three fiscals ending FY19. The growth was mainly restricted due to fragmented nature of its operating spectrum marked by intense competition from both large and small players across the value chain. During 8MFY20, the company has achieved revenue of ~Rs.57 crore. Going forward, the ability of the company to scale up its operations is a key rating monitorable. The capital structure of the company also remained moderate with low long term debt and moderate overall gearing ratio as on the last three account closing dates. Further, the overall gearing ratio improved from 1.63x as on March 31, 2018 to 1.24x as on March 31, 2019 mainly driven by accretion of profit to reserves and lower outstanding bank borrowings as on the year-end date. Total indebtedness as reflected by the TOL/TNW also remained comfortable at 1.99x as on March 31, 2019. With a moderate capital structure, the debt protection metrics remain comfortable, with interest coverage and Total debt to GCA at 2.14 times (FY18: 2.12 times), and 6.42 years (PY: 7.53 years), respectively, in fiscal 2019. The financial risk profile is expected to remain comfortable over the near to medium term in absence of major debt-funded capex plans and conservative capital structure.

Favourable demand outlook for Solar Modules

The demand outlook for solar modules remains favourable supported by improved tariff competitiveness as compared to conventional energy sources and policy support from Government of India. Further, the government is focused on improving the domestic solar module manufacturing capacity.

Key Rating Weaknesses

Tender driven nature of operation with high competition from large Chinese and domestic players

TEL has been engaged majorly into tender driven business with regards to manufacturing, supply and installation of solar PV modules for which the company has required technical capability and execution record. No significant investment or expertise is required for the system integration work carried out by TEL which results in low entry barriers in the business. Hence, the company faces high competition from large domestic and Chinese module manufacturers having a better cost structure due to their large scale of operations and relatively longer track record in module manufacturing.

Vulnerability of profitability to adverse fluctuation in raw material prices

As majority of the raw materials for the module manufacturing are imported, the profitability of the company remains exposed to fluctuations in raw material prices. However, the risk is mitigated to some extent given the relatively short cycle from order to delivery. Although, the profitability indicators remain exposed to volatility and linkage between price movement of solar cells and modules as it constitutes major cost in the production.

Revenue concentration risk

Top 10 clientele of the company caters around 65% of its FY19 revenue indicating a moderate revenue concentration risk for the company. Further, around 80% of its present order book is from a single party which further indicates customer concentration risk.

Working capital intensive nature of operations with elongation in operating cycle

TEL's operations are working-capital intensive as large part of its working capital remained blocked in inventory as the company keeps raw material inventory of 50-55 days as the same is imported while it keeps inventory of around 8-10 days of PV modules. Moreover, counter parties mainly being government agencies/departments the receivables days of the company also remains elongated owing to procedural delays. The operating cycle of the company remained elongated at around 100 days in FY19. However, the average working capital utilisation remained moderate at ~61% in the trailing 12 months ended October, 2019. Going forward, effective management of working capital and early realisation of receivables is a key rating monitorable.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity profile of TEL is expected to remain adequate marked by its current ratio at 1.64x and quick ratio at 1.27x as on March 31, 2019. Further, with negligible debt repayment obligations in the near term and expected satisfactory cash accruals (Rs.7.23 crore in FY20) the liquidity position is also expected to remain adequate in the near to medium term. Further, the company has sufficient gearing headroom due to its comfortable capital structure and TEL's utilization of the funded bank lines was moderate at around ~61% over the last 12 months ended on October, 2019, indicates a satisfactory liquidity buffer. Moreover, the company has no debt availment plan in the near term which imparts further comfort.

About the Company

Incorporated in 2007, Topsun Energy Limited ("TEL" or "the company") is promoted by Mr. Dineshchandra Patel and family of Mehsana, Gujarat. TEL is engaged in business of manufacturing of solar photovoltaic (PV) modules and also undertakes turnkey projects including erection, commissioning and laying of solar panels for residential, commercial and government projects. The module manufacturing plant of the TEL is located at Linch in Mehsana and has an installed capacity of 120MW at an efficiency level of 340 watt peak (WP) crystalline modules.

Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	150.10	152.45
EBITDA	13.12	13.32
PAT	4.17	4.47
Total Debt	42.01	37.59
Tangible Net worth	25.75	30.22
EBITDA Margin (%)	8.74	8.74
PAT Margin (%)	2.77	2.92
Overall Gearing Ratio (x)	1.63	1.24

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Rating migrated to non-cooperating category with India Ratings and Research at IND BBB-(Issuer Not Cooperating)/IND A3 (Issuer Not Cooperating) on November 27, 2019.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Bank Facilities- Long Term	Long Term	31.50	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	-	-	-
2.	Bank Facilities- Short Term	Short Term	52.20	IVR A4+ (IVR A Four Plus)	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities-Cash Credit	-	-	-	31.50	IVR BB+/Stable Outlook
Short Term Bank Facilities – Bank Guarantee	-	-	-	52.20	IVR A4+

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Annexure 2: Facility wise lender details: Lenders-TEL-03-02-2020.pdf