Press Release

Topsun Energy Limited

June 10, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	24.00 (reduced from Rs. 27.00 crore)	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Rating Reaffirmed and Outlook assigned; removed from CWDI*	Simple
Short Term Bank Facilities	28.00 (reduced from Rs. 42.00 crore)	IVR A4+ (IVR A Four Plus)	Rating Reaffirmed; removed from CWDI*	Simple
Total	**52.00 (Fifty Two Crore Only)**			

*CWDI = Credit Watch with Developing Implications

Details of Facilities are in Annexure 1

Detailed Rationale

Informerics Valuations and Ratings Private Limited (IVR) has assigned long-term rating of IVR BB+ with a Stable Outlook and short-term rating of IVR A4+ for the bank loan facilities of Topsun Energy Limited (TEL).

The rating draws comfort from its extensive experience of the promoters and established track record of operations in cotton industry, 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 its moderately comfortable capital structure and favourable demand outlook for Solar Modules. However, 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.

Earlier the ratings were placed under credit watch with developing implications owing to subdued financial performance in FY20. However, the company has demonstrated improvement in its financial performance in FY21 and FY22 (provisional). Further, expected improvement in profitability margins in FY23. Hence, TEL has been removed from credit watch with improvement and stable outlook was assigned.

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 company has adequate technical and project management capabilities to handle multiple projects at a time and has supported the overall performance.

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 120 MW to 150 MW in FY21. 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 unexecuted order book of Rs.13.38 crore for EPC contracts and the PV module supply contracts. Company's order book is diversified towards multiple clienteles of the total order book. The outstanding order book has to be executed over the period of May 2022 to June 2022. Furthermore, the management also contends that there are some high value orders which are in various stages and are expected to materialize in the next 3-6 months which will lead to long term revenue visibility.

Moderate capital structure

The capital structure of the company remained moderate over three past fiscal years ending 2022. The overall gearing remained satisfactory at 0.58x in FY22 (Prov.), as against 0.60x in FY21. The adjusted tangible net worth stood healthy at of Rs 36.19 crore as on March 31, 2021, as against Rs 42.85 crore in the previous year. This decrease is due withdrawal of unsecured loans during FY21. Further, due to withdrawal of unsecured loans net worth declined to Rs 34.91 crore in FY22 (Prov.). Total indebtedness of the company remained comfortable and constant as reflected by TOL/ATNW at 0.99x in FY22 (Prov.).

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.

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 45-50 days. 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 108 days in FY22. However, the average working capital utilisation remained moderate at ~83% in the trailing 12 months ended April 2022. 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 2.02x and quick ratio at 1.39x as on March 31, 2022 (provisional). Further, with no debt repayment obligations and has cash accruals of Rs.2.45 crore in FY22, the liquidity position is 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 average bank utilization was moderate at ~83% over the last 12 months ended April 2022, indicates a satisfactory liquidity buffer. The company has cash and cash equivalents amounting to Rs.10.57 crore as on March 31, 2022. All these factors reflect adequate liquidity position of the company.

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 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 150MW.

Financials (Standalone):

(Rs. Crore)

For the year ended*	31-03-2021	31-03-2022
	Audited	Provisional
Total Operating Income	109.42	93.06
EBITDA	6.27	5.25
PAT	1.95	0.95
Total Debt	29.24	25.52
Adjusted Tangible Net worth	36.19	34.91
EBITDA Margin (%)	5.73	5.64
PAT Margin (%)	1.78	1.02
Overall Gearing Ratio (x)	0.60	0.58

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Rating migrated to non-cooperating category with India Ratings and Research on May 14, 2020 in the absence of adequate information to review the rating

Press Release

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (April 30, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20 (Feb 03, 2020)
1.	Cash Credit	Long Term	24.00 (reduced from 27.00)	IVR BB+; Stable	IVR BB+/ CWDI*	-	IVR BB+; Stable
2.	Bank Guarantee	Short Term	28.00 (reduced from 42.00)	IVR A4+	IVR A4+	-	IVR A4+

*CWDI = Credit Watch with Developing Implications

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com.

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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	-	-	-	24.00	IVR BB+/Stable
Short Term Bank Facilities – Bank Guarantee	-	-	-	28.00	IVR A4+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details https://www.infomerics.com/admin/prfiles/Lender-TEL-10-0622.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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 Complexity Level of Rated Instruments/Facilities.