



## Press Release

### Topsun Energy Limited

April 30, 2021

#### Ratings

| Instrument / Facility      | Amount (Rs. crore)                                  | Ratings  | Rating Action   |
|----------------------------|---|--|---|
| Long term Bank Facilities  | 27.00<br>(Reduced from Rs.31.50 crore)              | IVR BB+/Creditwatch withdevelopingimplications (IVR Double B Plus; Credit watch withDeveloping implications) | Reaffirmed and Placed under credit watch withdeveloping implication |
| Short term Bank Facilities | 42.00<br>(Reduced from Rs.52.20 Crore)              | IVR A4+/ Creditwatch withdevelopingimplications (IVR A Four Plus/ Creditwatch withdevelopingimplications)    | Reaffirmed and Placed under credit watch withdeveloping implication |
| <b>Total</b>               | <b>69.00</b><br><b>(INR Sixty Nine Crores Only)</b> |  |   |

Details of Facilities are in Annexure 1

#### Detailed Rationale

The ratings reaffirmed to the bank facilities of Topsun Energy Limited (“TEL” or “the Company”) derives comfort from its 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 satisfactory financial performance during 9MFY2021, moderately comfortable capital structure with satisfactory debt protection metrics and favourable 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.

The outlook has been revised to Credit Watch with Developing Implications due to subdued financial performance in FY20.

#### Key Rating Sensitivities:

##### Upward Factors

- Growth in scale of operations with improvement on profitability on a sustained basis.
- Sustenance of the capital structure.



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### **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. 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 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



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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.38.90 crore as on March 31, 2021 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 April 2021 to May 2021. 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 and improved 9MFY2021 performance:**

There was a significant decline in revenue as well margins in FY2019-20. During 9MFY21, the company has achieved revenue of ~Rs.77.79 crore with operating profit of Rs.2.64 Crs. 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 marginally improved from 1.24x as on March 31, 2019 to 1.18x as on March 31, 2020 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 1.93x as on March 31, 2020. Despite moderate capital structure, due to deterioration in operating margins during FY2020, the debt protection metrics has weakened, due to negative gross cash accruals. The financial risk profile is expected to remain comfortable over the near to medium term in absence of major debt-funded capex plans with conservative capital structure and increased profitability margins during FY2020-21.

### **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



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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 FY20 revenue indicating a moderate revenue concentration risk for the company. This risk is partially gets mitigated by reputed client base which reduces the counter party default 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



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company remained elongated at around 151 days in FY20. However, the average working capital utilisation remained moderate at ~79% in the trailing 12 months ended January, 2021. 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 1.84x and quick ratio at 1.34x as on March 31, 2020. Further, with no debt repayment obligations in the near term and expected satisfactory cash accruals (Rs.4.08 crore in FY21) 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 ~79% over the last 12 months ended on January 21, indicates a satisfactory liquidity buffer. Moreover, the company has no debt avilment 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 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*    | 31-03-2019  | 31-03-2020 |
|                        | Audited     | Audited    |
| Total Operating Income | 152.45      | 76.40      |



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| For the year ended*           | 31-03-2019 | 31-03-2020 |
|-------------------------------|------------|------------|
| EBITDA                        | 13.43      | 1.40       |
| PAT                           | 4.47       | -3.59      |
| Total Debt                    | 37.60      | 31.54      |
| Tangible Net worth (Book TNW) | 30.22      | 26.63      |
| EBITDA Margin (%)             | 8.81       | 1.84       |
| PAT Margin (%)                | 2.92       | -4.67      |
| Overall Gearing Ratio (x)     | 1.24       | 1.18       |

\*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.

**Any other information:** None

**Rating History for last three years:**

| Sr. No. | Name of Instrument /Facilities | Current Ratings (Year 2021-22) |                                |  | Rating History for the past 3 years     |  |   |
|---------|--------------------------------|--------------------------------|--------------------------------|--|---|--|---|
|         |                                | Type                           | Amount outstanding (Rs. Crore) | Rating   | Date(s) & Rating(s) assigned in 2020-21 | Date(s) & Rating(s) assigned in 2019-20 (Feb 03, 2020) | Date(s) & Rating(s) assigned in 2018-19 |
| 1.      | Bank Facilities - Long Term    | Long Term                      | 27.00                          | IVR BB+/Creditwatch with developing implications | -                                       | IVR BB+/Stable   | -                                       |
| 2.      | Bank Facilities - Short Term   | Short Term                     | 42.00                          | IVR A4+  | -                                       | IVR A4+  | -                                       |

**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](http://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



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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.

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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                         |
|---|------------------|------------------|---------------|------------------------------|--|
| Bank Facilities - Long Term (Cash Credit)     | -                | -                | -             | 27.00                        | IVR BB+/Creditwatch with developing implications |
| Bank Facilities - Short Term (Bank Guarantee) | -                | -                | -             | 42.00                        | IVR A4+  |

**Annexure 2: Facility wise lender details:** [Lenders-TEL-30-04-21.pdf](#)