



Press Release

Sova Solar Limited

August 26, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	<u>Complexity Indicator</u>
Long Term/ Short Term Bank Facilities (including proposed limit of Rs. 6.50 crore)	17.00	IVR BBB+/Stable/IVR A2 (IVR Triple B Plus with Stable Outlook/ IVR A Two)	Assigned	Simple
Short Term Bank Facilities (including proposed limit of Rs. 42 crore)	108.00	IVR A2 (IVR A Two)	Assigned	Simple
Total	125.00 (One hundred twenty five crore)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Sova Solar Limited (SSL) derive strength from its experienced promoter with longstanding presence in the industry, strong recovery in FY22 supported by waning impact of Covid-19 pandemic coupled with strong revenue visibility marked by healthy current order book position of ~Rs.335 crore as on June 15, 2022. The ratings also positively note SSL's satisfactory capital structure and comfortable debt protection metrics. The ratings also take into account reputed customer base and positive demand outlook for domestic solar module manufacturers in view of government thrust on renewables with favourable policies for domestic solar module manufacturers in the form of change in basic customs duty (BCD) and production linked incentive (PLI) scheme. However, these rating strengths remain constrained by its exposure to volatility in solar cell prices, intense competition and execution risks for underlying projects.

Key Rating Sensitivities

Upward Factors:



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- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Sustenance of the capital structure and improvement in debt protection metrics

Downward Factors:

- Moderation in operating income and/or moderation in cash accrual impacting the debt protection metrics on a sustained basis
- Any unplanned capex and /or deterioration in overall gearing to over 1.5x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoter with longstanding presence in the industry**

SSL is established by Mr. Subrata Mukherjee who has more than a decade of experience in solar power industry. His long presence and extensive experience in the manufacturing of solar module has helped the company in building strong supplier and customer network.

- **Strong recovery in FY22 supported by waning impact of Covid-19 pandemic**

The total operating income of the company moderated from Rs.219.45 crore in FY20 to Rs.115.24 crore in FY21 mainly due to the impact of covid-19 pandemic on its operations. However, the situation improved subsequently with fading impact of Covid-19 pandemic. During FY22, demand witnessed significant recovery resulting revenue growth of ~79% on a y-o-y basis to Rs.201.52 crore. With growth in topline, the absolute EBITDA of the company has also improved to Rs.10.51 crore in FY22 as compared to Rs.4.73 crore in FY21. The operating margin of the company remained moderate over the past three fiscals. However, despite increase in raw material prices in FY22, EBITDA margin improved to 5.21% backed by better absorption of fixed overheads. Moreover, in FY22, the net profit of the company improved significantly to Rs.12.45 crore from Rs.1.71 crore in FY21 aided by growth in absolute EBITDA coupled with reversal of doubtful receivables of Rs.7.33 crore which were earlier provisioned in FY20 and FY21. Gross cash accruals has also improved from Rs.4.74 crore in FY21 to Rs.14.85 crore in FY22 (Provisional).

- **Satisfactory capital structure and comfortable debt protection metrics**



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The capital structure of SSL has remained satisfactory over the past three account closing dates. Total debt profile of the company mainly comprises working capital loan. The overall gearing though moderated from 0.53x as on March 31, 2021 to 1.00x as on March 31, 2022 due to increase in working capital borrowings but remained satisfactory. The total indebtedness of the company indicated by its TOL/TNW also remained moderate at 2.14x as on March 31, 2022. The debt protection metrics of the company remained healthy over the past three fiscals. The interest coverage ratio improved from 4.52x in FY20 to 4.73x in FY22 (Provisional). Total Debt/GCA also remained comfortable at 2.54 years in FY22 (prov.) against 2.82 years in FY21.

- **Adequate order book position provides revenue visibility; reputed customer base**

SSL's pending order book position stood at ~Rs.335 crore as on June 15, 2022 for supply of solar modules, which provides near-term revenue visibility. Moreover, the company has a reputed customer base such as BHEL, Kirloskar Solar Technologies Ltd, Exide Industries Limited etc.

- **Positive demand outlook for domestic module manufacturers**

The demand outlook for the domestic solar module manufacturers remains favourable over the medium term. The government thrust on renewables with favourable policies in the form of basic customs duty (BCD) and production linked incentive (PLI) scheme will improve the cost competitiveness of domestic manufacturers against the imports to a large extent.

Key Rating Weakness:

- **Exposure to volatility in solar cell prices**

In order to manufacture solar PV modules, the company require multiple raw materials and components, primarily solar PV cells. The price of solar PV cells remains volatile. Hence, the company's profitability remains exposed to volatility and linkage between price movement of solar cells and modules. Further, substantial part of raw materials, including solar cells, are imported from China and certain other countries, including Taiwan and Malaysia. Moreover, growth is exposed to changes in government policies.

- **Intense competition**

The market for solar PV modules is intensely competitive and continuously evolving with presence of traditional global and local solar manufacturing companies. Moreover, the



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government thrust towards domestic solar module manufacturing are attracting new players and existing players to expand their capacities and thereby leading to increase competition within the domestic manufacturing set-up.

- **Execution risks for underlying projects**

The company remain exposed to risk of delay in execution of underlying solar projects. SSL has planned to add additional capacity by 200 MW in FY23 which will enhance total capacity to 600 MW at an estimated cost of ~Rs.15 crore which will be entirely funded by internal accruals.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-financial Sector\)](#)

[Criteria of assigning Rating Outlook](#)

Liquidity Position: Adequate

The liquidity position of the company is expected to remain adequate marked by sufficient cushion in accruals vis-à-vis its minimal repayment obligations. Moreover, the average fund based working capital utilization remained low at ~44% during the past 12 months ended March 31, 2022, indicating sufficient liquidity buffer.

About the Company

Incorporated in 1996, Kolkata based Sova Solar Limited (SSL) is engaged in the manufacturing of Solar Photo Voltaic Module. The company is founded by Mr. Subrata Mukherjee. SSL is an ISO certified company with its manufacturing facilities located at Durgapur, West Bengal under the export promotion industrial park with annual installed capacity of production 400Mw. The products manufactured by SSL include Poly crystalline, Mono- crystalline PREC & Mono- crystalline PREC with half cut cells.

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Provisional
Total Operating Income	115.24	201.52
EBITDA	4.73	10.51
PAT	1.71	12.45



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For the year ended* / As On	31-03-2021	31-03-2022
Total Debt	13.38	37.68
Tangible Net worth	25.09	37.54
EBITDA Margin (%)	4.10	5.21
PAT Margin (%)	1.47	5.94
Overall Gearing Ratio (x)	0.53	1.00

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: India Ratings has maintained the rating of Sova Solar Limited into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release/publication dated July 28, 2022.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit* (including proposed limit of Rs. 6.50 crore)	Long Term	17.00	IVR BBB+/Stable/IVR A2	-	-	-
2.	Letter of Credit (including proposed limit of Rs. 40 crore)	Short Term	103.00	IVR A2	-	-	-
3.	Bank Guarantee (including proposed limit of Rs. 2 crore)	Short Term	5.00	IVR A2	-	-	-

*One way interchangeability from CC limit to LC limit

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About Infomerics:



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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 / Outlook
Cash Credit* (including proposed limit of Rs. 6.50 crore)	-	-	-	17.00	IVR BBB+/Stable/IVR A2
Letter of Credit (including proposed limit of Rs. 40 crore)	-	-	-	103.00	IVR A2
Bank Guarantee (including proposed limit of Rs. 2 crore)	-	-	-	5.00	IVR A2
Total				125.00	

*One way interchangeability from CC limit to LC limit

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



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Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-Sova-Solar-aug22.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 www.infomerics.com.

