



Press Release

Topsun Energy Limited

July 24, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	24.00	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook)	Downgraded	Simple
Short Term Bank Facilities	28.00	IVR A4 (IVR A Four)	Downgraded	Simple
Total	52.00 (Fifty Two Crore Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics 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 has been downgraded due to decline in the total operating income and negative bottom-line impacting the liquidity and debt protection metrics.

The rating draws comfort from its extensive experience of the promoters and established track record of operations, 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.



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Key Rating Sensitivities:

Upward Factors

- Growth in operating income with improvement in profitability and debt protection metrics on a sustained basis.
- Management of working capital requirements efficiently with improvement in liquidity position.
- Sustenance of the capital structure.

Downward Factors

- Decline in operating income and profitability impacting the financial risk profile and debt protection metrics on a sustained basis.
- Elongation of Operating cycle dampening the liquidity position
- Moderation in Capital Structure.

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. 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



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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.

Good order book position reflecting satisfactory short term revenue visibility

The company has unexecuted order book of Rs.91.99 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 2023 to Mar 2024. 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 ensure short term revenue visibility.

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 capital structure

The capital structure of the company remained moderate over three past fiscal years ending 2023. The overall gearing remained satisfactory at 1.03x in FY23 (Prov.), as against 0.87x in FY22. The adjusted tangible net worth stood healthy at of Rs 31.40 crore as on March 31, 2023, as against Rs 34.66 crore in the previous year. This decrease is due withdrawal of unsecured loans during FY23. Total indebtedness of the company remained comfortable and constant as reflected by TOL/ATNW at 0.94x in FY23 (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



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Decline in Operating income and profitability

TEL has reported sharp decline in its Operating income in FY 23(Prov) at Rs. 66.23 Cr as against 93.06 Cr. in FY 22 and also reported net loss of Rs. 2.21 Cr in FY 23 as against the profit of Rs. 0.71 Cr. in FY 22. This is mainly due to the recent slowdown in the economy and increasing competition from the solar modules and solution providers in the international and domestic market.

Fluctuation in raw material prices impacting the profit margins

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.

Elongation in operating cycle resulting in dampening the liquidity

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 70 days Approx. 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 170 days in FY23. Going forward, effective management of working capital and early realisation of receivables is a key rating monitorable.

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.

Analytical Approach: Standalone

Applicable Criteria:



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[Rating Methodology for Manufacturing Companies](#)

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

[Criteria for assigning rating outlook.](#)

Liquidity –Stretched

The liquidity profile of TEL to be indicated by its current ratio at 1.78x and quick ratio at 1.46x as on March 31, 2023 (provisional). Further, the gross cash accruals is negative at Rs.1.55 crore in FY23 as against positive Rs. 2.46 Crore in FY 2022, The company has cash and cash equivalents amounting to Rs.2.19 crore has declined in March 31, 2023 as against Rs. 10.57 crore in FY 2022. All these factors reflect that liquidity position of the company has been deteriorated will remain stretched in the near term.

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):

For the year ended*	(Rs. Crore)	
	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	93.06	66.23
EBITDA	5.28	0.44
PAT	0.71	-2.21
Total Debt	25.46	27.89
Adjusted Tangible Net worth	34.66	31.40
EBITDA Margin (%)	5.67	0.66
PAT Margin (%)	0.76	-3.31
Overall Gearing Ratio (x)	0.87	1.03

* Classification as per Infomerics' standards



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Status of non-cooperation with previous CRA: Rating migrated to non-cooperating category with India Ratings and Research on Jul 28, 2022 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 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (June 09, 2022)	Date(s) & Rating(s) assigned in 2021-22 (Apr 30, 2021)	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	Long Term	24.00 (reduced from 27.00)	IVR BB-/ Stable	IVR BB+/ Stable	IVR BB+/ CWDI*	-
2.	Bank Guarantee	Short Term	28.00 (reduced from 42.00)	IVR A4	IVR A4+	IVR A4+/CWDI	-

*CWDI = Credit Watch with Developing Implications

Name and Contact Details of the Rating Analyst:

Name: Mr. Robin Chawla Tel: (011) 45579024 Email: robin.chawla@infomerics.com	Name: Mr. Om Prakash Jain Tel: (011) 45579024 Email: opjain@infomerics.com
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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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



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Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary. 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/len-topsun-jul23.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](#).