

## RATING RATIONALE

04 Oct 2019

### Surana Solar Ltd

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹ 26.50 Crores of Surana Solar Ltd (SSL or ‘the Company’)**

#### Particulars:

Facility	Previous Limits ₹ Crores	Present Limits ₹ Crores	Tenure	Rating History (Jul 2018)	Review Ratings*
Fund Based	11.28	4.00	Long Term	<b>BWR BBB-</b> [Pronounced as BWR Triple B Minus] <b>(Outlook: Negative)</b>	BWR BBB- [Pronounced as BWR Triple B Minus] (Outlook: Negative) <b>Reaffirmed</b>
Non-Fund Based	47.85	22.50	Short Term	<b>BWR A3</b> [Pronounced as BWR A Three]	BWR A3 [Pronounced as BWR A Three] <b>Reaffirmed</b>
<b>Total</b>	<b>59.13</b>	<b>26.50</b>	<b>₹ Twenty Six Crores and Fifty Lakhs Only</b>		

\*For definition of the ratings please refer to our website [www.brickworkratings.com](http://www.brickworkratings.com)

Note: Details of bank wise facilities is as per Annexure-I

#### Rating: Reaffirmed

#### RATING ACTION / OUTLOOK

BWR has essentially relied upon the audited financials upto FY19, projections upto FY21, publicly available information and information/ clarifications provided by the Company’s management.

The rating reaffirmation continues to factor the management’s experience in solar industry, support of the Hyderabad based Surana group of Companies, established operational track record, strong operating capabilities of the Company in the implementation of the solar projects and other related activities, average financial risk profile marked by modest net worth, low gearing and moderate debt protection metrics. The ratings, however, continue to be constrained by the elevated competitive intensity in the solar industry with the capital costs on a steep declining trend, which has limited the profitability margins for the manufacturers and EPC players in the industry, vulnerability of profitability to volatility in raw material prices and foreign exchange fluctuations and working capital intensive nature of the business.



Negative outlook reflects the continued deterioration in the revenue of the Company during FY19, mainly due to weakening of rupee against dollar impacting imports, unfavorable pricing of solar products and lower demand in the markets due to stiff competition from China. The 'Negative' outlook indicates a high likelihood of rating change over the medium term. The rating may be downgraded if the credit profile of the Company is affected due to deterioration in performance. The outlook may be revised to "Stable" in the event of improvement in revenue, profits and strengthening of the Company's credit profile.

## **KEY RATING DRIVERS**

### **Credit Strength:**

#### **Established track record of operations of Hyderabad based Surana Group:**

SSL is a part of Hyderabad based Surana group, which has business activities in renewable energy, aluminum & copper products, telecom cables & realty. The Group has business experience of over four decades. SSL has an established presence in the solar photovoltaic (PV) module industry and as a Solar EPC contractor.

### **Experienced management:**

The Board of Directors comprises professionals with an experience of over 2 decades in the metal, solar & wind power industry.

### **Continued Satisfactory credit profile marked by modest net worth, adequate debt protection metrics and low gearing levels:**

Despite deterioration in revenue and operating margin by 11.19% and 1.54%, respectively in FY19. SSL's financial risk profile is moderate with modest net worth, adequate debt protection metrics and debt servicing capabilities. SSL's utilization of the funded bank lines was minimal over the last 12 months. Total Debt/Tangible net worth comfortable at 0.42 times as on 31st March 2019. Debt servicing capabilities remained comfortable, reflected by ISCR of 2.48 times and DSCR of 2.60 times for FY19.

### **Credit Risk:**

#### **Susceptibility to competition, volatility in raw material prices and forex risk:**

Fragmentation and competition in the solar power EPC segment restrain any pass-through mechanism, leading to volatile profitability margins. The intensely competitive solar industry with stiff competition from imports from China, Taiwan, etc. has resulted in profit margins being vulnerable to volatility in raw material prices, given that the majority of solar modules is imported. Profitability indicators remain exposed to volatility and linkage between price movement of solar cells and modules. Though the prices of key raw materials [solar cells and solar modules] have declined, Government of India has imposed higher import duty, so as to encourage the domestic manufacturing Companies. SSL imports around 90% of raw material. Due to high volume of imports and rupee currency fluctuations, the Company is exposed to foreign exchange fluctuation risk.



**Skewed and large working capital requirement:**

Payments from customers on a milestone basis, a long operating cycle, and seasonal order execution (due to monsoon) lead to substantial and skewed working capital requirement. Furthermore, large orders entail substantial incremental fund requirement and commensurate support from enhancement in bank lines.

**Risk of devolvement of warranties** – SSL is exposed to the risk of future devolvement of warranties that it has provided to its customers; risks arising out of the same are mitigated to an extent by comprehensive acceptance tests undertaken by the Company on its solar modules.

**ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA  
RATING SENSITIVITIES**

Going forward, the ability of the Company to increase its scale of operations, improve profitability, manage foreign exchange fluctuations effectively and efficiently handle its working capital would be the key rating sensitivities. Furthermore, any impact on the cash flows of the Company due to ongoing arbitration dispute is a key rating sensitivity.

**LIQUIDITY POSITION**

The liquidity position remains adequate, SSL's utilization of the funded bank lines was minimal over the last 12 months and Rs. ~2.70 crore cash and bank balance as on March 31, 2019. Furthermore, financial support from Group Companies in the form of inter-corporate loans and extended credit period support the Company's liquidity profile.

**COMPANY PROFILE**

Established in 2006 at Hyderabad, **Surana Solar Ltd (SSL)** is engaged in manufacturing of Solar Energy Systems with focus on Solar Photovoltaic (PV) Modules, solar cells and EPC of Solar Power Projects. Surana Solar Limited is part of the Hyderabad based Surana Group. It is listed on BSE and NSE. The Company manufactures Solar Products with a range of 3 Wp to 300 Wp SPV Modules. It has two manufacturing plants- one located in Cherallapally and the other at Fab-city SEZ (both located in Hyderabad). Currently total Modules Manufacturing Capacity at both the units is 80 MW. SSL has established itself as one of the lowest cost manufacturers of Solar Modules in the country. For wind division, the Company currently has an overall installed capacity of 1.65 MW at Khatav Taluka, Satara District, Maharashtra.

Surana Group is a Hyderabad based business conglomerate having business activities in Renewable Energy, Aluminum & Copper Products, Telecom Cables & Realty. The Group has an experience of over four decades. The Group has three main operating and listed Companies- Bhagyanagar India Ltd engaged in the business of manufacturing of a wide range of copper products, Non-conventional energy, real estate and infrastructure, Surana Solar Ltd and Surana Telecom & Power Ltd (operate Solar and wind power plants).



Shri. G.M Surana is the Chairman. Mr Narender Surana is the Managing Director. Mr Devendra Surana, Mr O Swaminatha Reddy, Mr R Surender Reddy, Dr R.N. Sreenath, Nirmal Kumar Jain and Ms. Madhumathi Suresh are the other Directors.

### KEY FINANCIAL INDICATORS

Key Parameters	Units	31 Mar 2018	31 Mar 2019
Result Type		Audited	Audited
Operating Revenue	Rs Cr	39.12	34.74
EBITDA	Rs Cr	6.03	4.82
PAT	Rs Cr	0.84	1.00
Tangible Net worth	Rs Cr	52.49	53.49
Total Debt/Tangible Net worth	Times	0.48	0.42
Current Ratio	Times	2.69	8.07

### OTHER DEVELOPMENTS

In the year 2016, Company was awarded an EPC contract for execution and operation & maintenance of 10MW (AC) Solar Power Plant by Paradip Port Trust (PPT). However, in the course of implementation of the said project, there has been disputes on technical grounds between the Company and PPT as regard to escalation in cost and time limit for completion of the project. Taking a contrary stand, PPT cancelled/terminated LOI and forfeited mobilization advance, guarantee and performance guarantee. The Company challenged the action of PPT before Hon'ble court of Odisha who in turn was pleased to pass an order to pursue the remedy before the adjudicator or file suitable application for settlement of dispute through arbitration.

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NIL**

**NON-COOPERATION WITH PREVIOUS RATING AGENCY - NIL**

## RATING HISTORY

Facilities	Current Rating			Rating History		
	Tenure	Amount (₹ Cr)	Rating	03 Jul 2018	31-Mar-2017 <sup>^</sup>	7-Oct-2016
<b>Fund Based</b>	Long Term	4.00	BWR BBB-(Negative) Reaffirmed	BWR BBB-(Negative) Rating reaffirmed & revision of outlook to Negative	BWR BBB-(Stable) Reaffirmed	Rating Not Reviewed
<b>Non Fund Based</b>	Short Term	22.5	BWR A3 Reaffirmed	BWR A3 Reaffirmed	BWR A3 Reaffirmed	Rating Not Reviewed
Total		<b>26.50</b>	Rupees Twenty Six Crores and Fifty Lakhs Only			

## COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)
- [Services Sector](#)

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**Surana Solar Ltd**

**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

Bank	Facility	Tenure	Limit (₹ Crs)
Indian Overseas Bank	Cash Credit	Long Term	(11.00)*
	LC / Buyer's Credit	Short Term	11.00
	Bank Guarantee		0.50
	<b>Total- A</b>		
HDFC Bank	Cash Credit	Long Term	4.00
	LC / Buyer's Credit	Short Term	11.00
	<b>Total - B</b>		
<b>Grand Total</b>			<b>26.50</b>

\*Sublimit of LC/Buyer's Credit

**For print and digital media**

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#### **DISCLAIMER**

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