

# Indosolar Ltd.

## CRISIL IPO Grade 3/5 (average)

March 16, 2010

### Grade

**CRISIL IPO Grade '3/5':** The grade indicates that the fundamentals of the issue are average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals.

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### Issue Details

<b>Shares offered to public</b>	NA
<b>As per cent of post-issue equity</b>	NA
<b>Object of the issue</b>	Equity funding for Line 3 and general corporate purpose
<b>Amount proposed to be raised</b>	Rs 4,000 mn
<b>Price band</b>	Not available
<b>Lead managers</b>	ENAM Securities Private Ltd

### Company Background

Indosolar Ltd. is engaged in the manufacturing of solar photo-voltaic (SPV) cells from crystalline silicon wafers for converting sunlight directly into electricity. The company was incorporated under the Companies Act on April 8, 2005. The company started manufacturing SPV cells in July 2009 with the commissioning of Line 1 with an annual manufacturing capacity of 80 MW.

### **Grading Highlights**

#### **Business Prospects**

- Depleting energy reserves and consensus on emission cuts by countries across the globe augur well for the growth of the solar industry. During 2004-08, the solar power generation capacity grew at a CAGR of 47% to 13,424 MW.
- The cost of generation of solar power is very high and is therefore, uncompetitive as compared to other conventional sources of power generation.
- Therefore, the solar industry is dependent on the government's support. Many governments across the world have doled out subsidies and incentive schemes to promote this clean source of energy. The withdrawal of any of the support schemes, until the technology becomes competitive, could cause a major demand-supply imbalance.
- Indosolar is a new entrant in the PV cells manufacturing industry and is expected to face strong competition from large and established players.
- Indosolar has a strong technical tie-up with Schmid, one of the leaders in SPV cell manufacturing technology.
- The technology for manufacturing SPV is still evolving. Any major breakthrough in technology could result in obsolescence of the technology being used by existing players such as Indosolar.
- Claim towards capital subsidy of around ~Rs 2,500 mn would help the company become more cost competitive.

#### **Financial Performance**

- Indosolar commissioned Line 1 with an annual manufacturing capacity of 80 MW in July 2009. However, capacity utilisation was very low due to poor offtake till November 2009.
- Line 2, with the same capacity as Line 1, is expected to be commissioned by March 2010.
- The company has incurred a capital expenditure of Rs 6,670 mn towards Line 1 and Line 2. These projects were funded partly through debt amounting to Rs 4,600 mn and partly through equity contribution by promoters.
- The company plans to fund Line 3, having an annual capacity of 100 MW, through the IPO proceeds.
- As on January 5, 2010, the company has a strong order book of 78.08 MW with a contract value of Rs 5,063.9 mn.
- Capital subsidy of ~Rs 2,500 mn from the Indian government would help in reducing capital cost and the gearing level.

#### **Management Capabilities**

- Although this is a new line of business, the promoters have demonstrated their strong business acumen in their previous venture, Halonix.
- The R&D team includes three researchers with experience in the solar photo voltaic and semiconductor industry. They plan to focus on increasing cell efficiency and improvement in the production processes.

#### **Corporate Governance**

- The board conforms to the minimum requirements of composition with respect to independent directors.
- The independent directors of Indosolar bring rich experience to the company.
- The audit committee is chaired by Mr Adit Jain who is highly experienced in finance.

### Detailed Grading Rationale

#### Overall Grading Summary (CRISIL IPO Grade 3/5)

To arrive at the overall grade, CRISIL has considered the following parameters:

- Business prospects and financial performance
- Management capability
- Corporate governance

**CRISIL has assigned a CRISIL IPO grade of ‘3/5’ (pronounced ‘three on five’) to the proposed Initial Public Offer of Indosolar Ltd.** The grade indicates that the fundamentals of the issue are **average** relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The offer price for the issue may be higher or lower than the level justified by its fundamentals. The grade is not a recommendation to buy/sell or hold the graded instrument, the graded instrument’s future market price or its suitability for a particular investor.

The grading assigned reflects CRISIL’s view that the depleting energy reserves and the consensus among various nations to cut emissions and focus on an alternative clean source of energy is positive for the solar industry. The grading also reflects the strong track record of the promoters with respect to their previous technology-intensive venture at Halonix (Earlier Phoenix Lamps). However, the grading is tempered by the fact that Indosolar has no prior experience in the solar PV cells business and is expected to face competition from large and established players. Further, the grading also takes into consideration the fact that the growth of the solar industry would depend entirely on governmental support as the cost of power generation, currently, is very high. The grading is weighed down by the fact that the technology for manufacturing SPV is still evolving and, therefore, carries the risk of obsolescence for existing players including Indosolar.

➤ ***Depleting reserves, emission cuts augur well for the solar industry***

Energy consumption has gone up significantly over the past 50 years resulting in a huge decline in the reserve-to- production ratio. Countries around the world are increasingly becoming aware of the hazards of climate change, the need for emission cuts and alternative clean energy technology. The Kyoto Protocol signed by various countries to reduce carbon emissions also boosts the demand for non-conventional power. In this context, solar power generation capacities have grown at a CAGR of 47% during the 2004 to 2008 period to reach 13,424 MW. Although the industry witnessed a slump in investments in 2009, growth is expected to rebound on falling prices of silicon, resulting in lower capital costs for installing solar power capacity and increasing impetus from the governments of various countries.

➤ ***Uncompetitive to conventional fuels; high dependence on governmental support***

As solar power continues to be uncompetitive as compared to the conventional source of power generation, the industry’s growth depends almost entirely on governmental support. Many countries have doled out subsidy and incentives to promote solar applications. Europe has taken the lead to promote solar power through Feed-in-tariff schemes (FIT). Other countries are also likely to pursue schemes to promote solar power aggressively. The Jawaharlal Nehru National Solar Mission, launched in January 2010 in India, envisages an investor-friendly mechanism that reduces risk and provides an attractive as well as sufficiently extended tariff for solar power offtake. This mission has targeted to increase the solar power generation capacity to 20,000 MW by the end of the Thirteenth Five-Year Plan (by 2022) from the current capacity of 80-100 MW. The trading arm of National Thermal Power Corporation (NTPC) has been appointed as the nodal agency to sell solar power by

bundling NTPC’s low cost power (equal MW thermal power capacity to be allocated from the central quota) which would reduce the selling cost to Rs 5.5-6 per unit from Rs 18-18.5.

Any reversal or withdrawal of the incentive schemes by countries would cause a demand-supply imbalance. However, given the consensus among nations to promote emission cuts and use clean fuel, incentives and support (in the form of subsidies in capital cost, feed-in-tariff, etc.) are expected to be made available for the industry till the time the industry becomes competitive.

**Table1: High cost compared to conventional fuels**

Fuel	Coal Based	Gas Based	Wind Based	Solar Based
Capital Cost per MW	Rs 4.5-4.7 Cr	Rs 3.5-4 Cr	Rs 5.5-6 Cr	Rs 15.5-16 Cr
Per unit cost of generation#	Rs 2.7-3	Rs 2.6-3.1	Rs 5.5-5.8	Rs 18-18.5

Source: CRISIL Research  
#In India

➤ **Use of proven technology; tie-up with Schmid**

Indosolar uses crystalline silicon SPV cell technology to manufacture PV cells. This technology has been tested and commercially implemented by major PV players and accounts for more than 93% of global PV manufacturing capacity. The production lines have been procured from Schmid, one of the world leaders in PV technology, whose clients include REC and Moser Baer PV. Under the contract, Schmid is mandated to provide operational efficiency of 15.5% within six months of commercial production. The tie-up also entitles the company to free transfer of any improvement in technology within five years of installation of the facility, free of cost.

➤ **Technology still in the stage of evolution; risk of obsolescence**

The technology for manufacturing SPV cells is still at a nascent stage and evolving. Currently, crystalline (First Generation technology) technology accounts for 93% of the globally installed PV manufacturing capacity. Most of the players in the PV manufacturing space are working on improving the efficiency of wafers. Research is also happening on the second generation (thin film) and third generation (nanostructure) technologies. However, the thin film technology has not been widely accepted despite its lower cost advantage (30-40%) due to very low operational efficiency (6-7%) and problems related to installations. While, any major breakthrough could result in obsolescence of the technology being used by existing players, the risk for Indosolar is partly mitigated by the use of proven and established crystalline wafer technology.

➤ **Promoter experience in entrepreneurial and technology-intensive ventures**

The current promoters Mr. B.K. Gupta and Mr. Hulus Rahul Gupta have considerable experience in running technology-intensive ventures. They were running Halonix, engaged in manufacture of halogen lamps, before they sold out their stake to a private equity player in 2007. Under their leadership, the company grew from manufacturing 500 lamps a month in 1989 to 9,000,000 lamps per month in 2007. Halonix is the fourth largest automotive headlamps manufacturer in the world and holds a 7% share of the global market.

➤ **Claim towards capital subsidy to reduce cost**

Indosolar is entitled to 25% capital subsidy under the “Special Incentive Package Scheme” of 2007 notified by the Government of India (GoI) and has been granted an in-principal approval on June 1, 2009 by the Indian Ministry of Communication and Information technology. The company needs to achieve a threshold capital expenditure (actual spend) of Rs 10 bn to claim the subsidy. However, financial closure is required to be

achieved by March 31, 2010. Capital expenditure on Line 3 would help in reaching the threshold amount and its entitlement towards capital subsidy of around Rs 2,500 mn. The capital subsidy would help in reducing capital cost and, therefore, Indosolar would likely become more cost competitive in the manufacturing of SPV cells.

**Financials**

- In July 2009, Indosolar commissioned Line 1 with a manufacturing capacity of 80 MW per annum. However, the capacity utilisation was very low due to poor demand till November 2009.
- Line 2, also of 80 MW capacity, is expected to be commissioned by March 2010.
- The company has incurred a capital expenditure of Rs 6,670 mn for Line 1 and Line 2, funded through a mix of debt (of Rs 4,600 mn) and equity contribution from the promoters.
- As on January 5, 2010 the company has a strong order book of 78.08 MW with a contract value of Rs 5,063.9 mn.
- IPO proceed of Rs 4,000 mn would be mainly used to fund the expansion of Line 3, with an annual capacity of 100 MW.
- Capital subsidy of ~Rs 2,500 mn would help in reducing capital cost and the gearing level.
- Till December 2009, the company had sold 3.36 MW of SPV cells for an aggregate value of Rs 215.26 mn.

**Table2: Break-up of the IPO proceed**

Sr No	Project description	(Rs mn)
1	Setting up of Line 3	3,600
2	General Corporate Expenses	400
<b>Total</b>		<b>4,000</b>

Source: DRHP

**Business Profile**

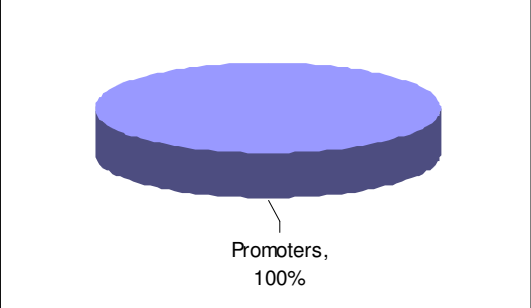
Indosolar Ltd. is engaged in the manufacturing of solar photo-voltaic (SPV) cells from crystalline silicon wafers used for converting sunlight directly into electricity. The company was incorporated under the Companies Act, 1956 on April 8, 2005 and was subsequently acquired by the current promoters Mr B.K. Gupta and his son Mr Hulas Rahul Gupta in 2006. The company started manufacturing SPV cells in July 2009 following the commissioning of Line 1 with an annual manufacturing capacity of 80 MW.

Indosolar is looking at expanding its manufacturing capacity further. Expansion through Line 2 with an annual capacity of 80 MW is under progress and is expected to be commissioned by March 2010. The company plans to raise funds through its IPO mainly to fund the expansion of Line 3 which would have an annual manufacturing capacity of 100 MW. The company has state-of-the-art manufacturing facility in Noida, Uttar Pradesh, commissioned on a turnkey basis by Schmid, one of the leading global technology providers. The facility has been granted EOU status pursuant to which it is entitled to certain direct and indirect tax benefits. However, the direct tax benefit is set to expire in 2010-11, unless extended.

The SPV cells produced by the company are primarily sold to module manufacturers on a business-to-business platform who in turn supply the modules to system integrators who install systems for grid and off-grid applications.

As on January 5, 2010, the company had an order book of 78.08 MW of SPV cells for a contract value of Rs 5,063.9 mn.

**Indosolar: Shareholding Pattern**

Pre-IPO	Post-IPO NA#
 <p>Promoters, 100%</p>	

Source: DRHP

#The company is yet to decide on the pricing and number of shares to raise Rs 4,000 mn through IPO

**Profile of Management and Board**

Mr B.K.Gupta, promoter, is the executive chairman of the board. Mr Hulas Rahul Gupta, promoter, is the CEO of the company. He had served as the CEO of the erstwhile Halonix. The company has a highly experienced team of people at the second level of management. Dr. Dina Nath Singh, who has more than 35 years of experience in the field of semiconductors and R&D, is the Chief Technical Officer of the company. The company’s board has six directors, three of whom are independent directors. All the independent directors have extensive and relevant knowledge. Mr Ravinder Khanna, one of the independent directors, is highly experienced SPV and is expected to guide the management on the industry. Mr Adit Jain, one of the independent directors and also chairman of the audit committee, is highly knowledgeable in the finance field.

**Annexure: Profile of the Directors**

Name of Directors	Designation	Age (years)	Qualification	Key positions held
Mr. Bhushan Kumar Gupta	Executive Chairman	73		Promoter
Mr. Hulas Rahul Gupta	Managing Director	50	B.A.Concordia University, Canada	Promoter
Mr. Anand Kumar Agarwal	Executive Director & CFO	60	B.com Shri Ram College, New Delhi	Experience in Sales, Finance, Taxation ,Legal ,Business Administration and Planning
Mr. Ravinder Khanna	Independent Non Executive Director	50	MSc, PEC, Chandigarh MBA, Symbiosis, Pune	Experience in Marketing, Sales, Finance.
Mr. Adit Jain	Independent Non Executive Director	49	MSc, Birla Institute of Technology MBA, Henly Management College,UK	Experience in Corporate Advisory Services, Mergers & Acquisitions.Also on board of companies like Shriram Transport,MTNL
Mr. Gautam Singh Kuthari	Independent Non Executive Director	50	B.com, Delhi University	Experience in Textiles, Advertisements, Film Making, International Commodity Trading, FMGC, Ship Breaking, Lighting to Metal Industry.

Source: DRHP

**Disclaimer**

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