Information Research

Indosolar Ltd - IPO Analysis

10th Sept 2010

Recommendation: Subscribe

Issue Highlights

Issue Opens – 13 Sept 2010
Issue Closes – 15 Sept 2010
Face value – Rs 10
Price Band – Rs 29-32
Bid Size – 200 and in multiple thereof

Issue Type

100% Book Built Issue

Issue Size

No. of Shares – 11.16 – 12.31 Cr
Face Value – Rs 10
Issue Size – Rs 357 cr

Net Issue to Public: 11.16 - 12.31 cr Shares

- *QIB Portion- 5.58 Cr -6.16 Cr shares (50% of Net Issue)*
- *Retail Portion –3.91 Cr -4.31 Cr shares (35% of Net Issue)*
- *Non Institutional- 1.67 Cr -1.84 Cr shares (15% of Net Issue)*

Shareholdings

	Pre-Issue	Post-Issue
Promoters	97.63%	61.8% - 64%
Others	2.37%	1.5% - 1.6%
Public	-	34.5% - 36.7%

No of Share	Pre-Issue	Post-Issue
In Cr	21.20	32.36 – 33.51

Grade

Crisil Rating- 3 out of 5

Book Running Lead Managers

Enam Securities Limited

Registrar

Link Intime India Pvt Ltd

Listing

NSE, BSE

Object of the Offer

To finance the expansion of manufacturing capacity for SPV cells by adding a third line of 100 MW worth 360 cr.

Investment Rationale

Geographical Advantage

India is endowed with vast solar energy potential. About 5,000 trillion kWh per year energy is incident over India's land area with most parts receiving 4-7 kWh per sq mtrs per day. Photo-Voltaic PV is progressively becoming more attractive, vis-a-vis other renewable sources of power, as its cost declines.

Subscribed to Capital Subsidy to reduce cost

Indosolar is one of the six companies short listed for final approval for the "Special Incentive Package Scheme". It has already received in-principle approval for its total project of Rs 1,545 cr which equates to a capital subsidy of Rs 386 cr from the nodal agency.

Healthy order book

The company is having a strong order book aggregating Rs 1,011 cr ensuring steady revenues for the next couple of years. Moreover, order book consists of delivering 170 MW of Solar Photo-Voltaic SPV cells which would ensure over 100% capacity utilization considering their current capacity of 160 MW and the additional capacity is expected in Oct 2011. ISL will achieve greater operational efficiency with higher capacity utilizations going forward.

Use of proven technology; tie-up with Schmid

The company 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.

Favorable Industry Environment

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. 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.

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).

Utilization of the issue proceeds

Particulars (Rs lacs)	Estimated Cost	Estimated Schedule of Deployment	
		FY'11	FY'12
Setting Up of Line 3	33,742.80	26,994.24	6,748.56

Competitive Strengths

- State-of-the-art technologies for manufacturing SPV cells obtained from Schmid.
- Well positioned to receive tax breaks and special incentives from the Government of India.
- Early mover advantage in the domestic SPV cell manufacturing space.
- Committed and experienced promoters with demonstrable track record.
- Research and development initiatives that leverage both third party collaborations and internal resources.

Business Strategy

- Expand existing production capacities to achieve economies of scale.
- Expand our customer base, diversify our sales effort and pursue a proactive marketing program.
- To pursue opportunities and participate in solar power projects incentivized by the Governmental authorities in India and abroad.
- Flexible approach fo procurement of key raw materials at favorable prices.
- Continue to reduce our per Watt manufacturing costs, increase the throughput of our production lines and enhance our SPV cell Conversion Efficiencies.
- Implement stricter cash management and control measures.

Financial Performance

- The Company's Net income increased by 112.5% to Rs. 112.5 Cr in the year ended FY'10 as the company has having no sales activity. 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.
- 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.

Risk Factors

Poor financial performance

The company is currently having negative cash flows from operations. It had incurred net losses of Rs. 82.07 million and Rs. 154.87 million for Fiscal 2009 and the six month period ended September 30, 2009, respectively, on the basis of audited restated financial statements.

Reduction or elimination of government subsidies

It is expected that a substantial portion of company's SPV cells, upon sale, shall eventually be utilized in the on-grid market, where the solar power systems are connected to the utility grid and generate electricity to feed into the grid. The company believes that the near-term growth of the market for on-grid applications depends in large part on the availability and size of government subsidies and economic incentives.

Peer Comparison

Company	LTP	M.Cap.(Rs. In Cr.)	P/E(x)	P/BV(x)	RONW(%)
Websol Energy Systems Ltd	143.00	293	4.55	1.14	11.45
NTPC	202.00	1,64,456	19.80	2.65	14.66
Powergrid	104.50	44,824	20.40	2.77	13.17
NHPC	30.70	37,763	17.30	1.50	10.13
Rpower	155.30	37,462	60.70	2.59	0.85

The company is not comparable with available peers, however. At Rs 32, the higher price of the band, the issue is available at a P/E of 9.63x, indicating undervalued as compared to its peers.

Recommendation

As the company is into SPV cells which is one of the most drawing business now days plus the company gets support by government initiatives, strong and healthy order book the company is worth to subscribe.

About the company

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 then market and sell its products to primarily module manufacturers on a business-to-business ("**B2B**") platform, who in turn supply to the system integrators who install the systems for grid and off-grid (roof top) applications for use in the domestic market as well as markets in Europe, Spain, Japan, Asia, Canada and USA. The company started manufacturing SPV cells in July 2009 following the commissioning of Line 1 with an annual manufacturing capacity of 80 MW. 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.

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.

For Further Details/Clarifications Please contact:

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