

February 11, 2021

Emmvee Photovoltaic Power Private Limited: Ratings reaffirmed; outlook continues to remain negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	55.00	55.00	[ICRA]BBB- (Negative)/[ICRA]A3; reaffirmed
Non-Fund Based Limits	45.00	45.00	[ICRA]BBB- (Negative)/[ICRA]A3; reaffirmed
Total	100.00	100.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation continues to favourably factor in the strong track record of EPPPL as a solar module manufacturing segment and reputed customer profile. Further, the business outlook for domestic solar module manufacturers is expected to remain favourable, given the strong policy thrust from Government of India as well as improved tariff competitiveness of solar energy for the off-takers, both in utility scale as well as in industrial and commercial segment. Also, the company's established presence and long association with reputed domestic and foreign suppliers lead to relatively low raw material supply risks.

The rating however remains constrained by the exposure of the company's operating profitability to volatility in price spread between photovoltaic (PV) modules and cells, given that solar cells are imported and constitute a major portion of the company's cost structure. The ratings also remain tempered by the stiff competition in the solar module industry especially from imports. The implementation of the safeguard duty measure however continues to benefit the company in terms of improving its cost competitiveness, against the imports to a large extent. Further, the Covid-19 pandemic has resulted in further delay in resolution of the tariff issue in 30MW of the 40 MW solar power projects owned by the company through subsidiaries, where in a tariff of Rs. 4.36/Kwh is received as opposed to tariff of Rs. 6.10/Kwh as per the power purchase agreement (PPA). Despite an order from Appellate Tribunal for Electricity (APTEL) in favour of EPPPL, the counterparty Bangalore Electricity Supply Commission (BESCOM) has not honoured the same and has been making payments at a reduced tariff. However, ICRA notes that the support required from the core business cashflows of EPPPL to meet funding requirements at solar projects is expected to remain nominal.

While arriving at the rating, ICRA has not considered the missed payment of accrued interest during the Covid-19 moratorium on the due date as a default since the lender (an All India Financial Institution) had allowed this payment to be made at a later date pending clarification from its board.

The 'Negative' outlook however reflects ICRA's expectations that the financial risk profile of EPPPL is likely to remain moderate owing to high debt levels and working capital intensive nature of operations. The company's operations were impacted in Q1 FY2021 by the lockdown imposed by the Government of India (GoI) for containing the outbreak of Covid-19 pandemic and consequently, the company availed moratorium on debt repayments from March 2020 to August 2020 as per the Covid-19 relief package. While the said moratorium along with the Covid-top-up loans availed by the company provided a relief in terms of meeting the funding requirements, it has resulted in additional debt burden. As a result, the company's ability to ramp up scale /operations, given the sizeable debt servicing obligations in the near term remains a key monitorable.

Key rating drivers and their description

Credit strengths

Established presence in solar module manufacturing industry – EPPPL is an established player in the solar module manufacturing sector, with an operational track record of over a decade. The installed capacity of the solar module manufacturing facility stands at 500 MW. The company has also undertaken product development measures so as to produce half-cut modules in mono PERC¹ technology with higher peak watt (up to 400 Wp).

Favourable demand outlook for domestic module manufacturers – The demand outlook for domestic module manufacturers is favourable given the policy thrust and supportive measures in place by the Govt. This apart, safeguard duty (SGD) on imports of solar cells and modules is in place since July 2018 and has been further extended till July 2021. Also, tariff competitiveness of solar energy has significantly improved both for off-takers in the utility scale as well C&I segment.

Revenue visibility by virtue of modest order book position – The company typically has order book visibility for the ensuing 3-4 months. The current order book position (as on January 01, 2021) stands at Rs.252.97 crore for supply of PV modules providing near-term revenue visibility. Also, the customer profile of the company remains reputed.

Low raw material supply risks – EPPPL has solar cell procurement arrangements in place with reputed domestic and foreign suppliers. This reduces risks from the raw material supply side for the company. Though the substantial increase in the freight costs and shipment time in the recent times poses risk on the foreign supply of cells to some extent, the company has been able to manage the same effectively.

Credit challenges

High leveraging level, moderate coverage indicators and stretched liquidity – The capital structure of the company at a consolidated level remains stretched, with a gearing level of 4.5 times as on March 31, 2020, predominantly due to past debt-funded capacity expansion, solar projects funded at a debt-to-equity ratio of 3:1 as well as high working capital borrowings. This has been further exacerbated by the Covid-19 top-up loans availed by the company. The coverage indicators at the consolidated level remain moderate with interest coverage of 1.6 times and Total Debt/OPBDITA at 5.9 times for FY2020. The liquidity position of the company is stretched given the high working capital requirements and sizeable debt repayment obligations over the medium term. However, the company uses a combination of cash credit and bill discounting facilities to meet its working capital requirements.

Delay in tariff resolution of two solar SPVs – The company has been receiving lower tariffs of Rs. 4.36/kwh (as opposed to PPA tariff of Rs.6.10/kwh) in two projects out of the three solar power projects (30 MW out of 40 MW) due to a dispute regarding the date of commissioning. The APTEL in its ruling dated May 8, 2019 pronounced the verdict in favour of the company. Despite this favourable order, BESCO is yet to implement the order and is still releasing payments based on tariff of Rs.4.36/Kwh. While BESCO intended to petition in the Supreme Court against the APTEL order, Covid-19 delayed the process. Meanwhile the company intends to file an application with APTEL for contempt of court. However, only a nominal support may be required from EPPPL (standalone operations) towards these SPVs in case the tariff resolution is further delayed.

High customer concentration risk in pending order book position – The order book position is highly concentrated, with top-three customers accounting for ~99% of the total order book position. However, the risk is mitigated to a certain extent by the presence LC-backed payments/advance payments before despatch, as well as reputed and well-established counterparties. Further, any execution delays by the final project developer i.e. company's EPC customer may impact the company's revenue and profitability.

¹ PERC - Passivated Emitter and Rear Contact

Profitability exposed to movement in solar cell prices – The profitability indicators remain exposed to volatility and price movements of solar cells and modules. However, the company is able to pass on the higher cost of manufacturing to the end consumer for DCR orders, thereby saving its margins from price pressure.

Competition from imports – The domestic solar module manufacturing industry faces competition from imports given the price advantage that the latter possess. However, implementation of the safeguard duty by the Ministry of Finance in July 2018 has benefited the company, and improved the competitiveness of domestic module manufacturers against the imports to a large extent. The extension of SGD till July 29, 2021 is expected to keep the domestically manufactured PV modules cost competitive. However, long-term policy clarity on the other supportive measures such as basic customs duty and production linked incentives remains awaited.

Risk of devolvement of warranties on solar modules – The operations remain exposed to risks pertaining to any devolvement of warranties given on supply of solar modules. The company creates a provision of 0.25% on the module sales made during the year. However, due to lower warranty claims unutilised provision of Rs.2.61 crore was written back by the company in FY2020.

Liquidity position: Stretched

The company's liquidity position is **stretched**, given the relatively high utilisation of working capital facilities and sizeable debt repayment obligations going forward. Further, the liquidity buffer available with the company remains modest with free cash and bank balance of at Rs.1.05 crore and Rs.2.53 crore² respectively as on January 01, 2021. The company has sanctioned fund-based and non-based limits of Rs.55 crore and Rs.45 crore³ respectively. While the average utilisation of aforesaid fund-based limits for the last 12 months ending January 31, 2021 remain high, the company also has sanctioned sales bill discounting limits from other banks to meet its working capital requirements. On the other hand, the company is using higher than sanctioned non-fund based limits from one lender by giving 100% cash margin. Given the sizeable debt repayment obligations going forward, ramp up of scale of operations supported by a healthy order book and commensurate enhancement in working capital limits remains extremely crucial.

Rating sensitivities

Positive triggers – Given the negative outlook, a rating upgrade is unlikely in the near term. However, the outlook revision to stable or positive would arise in case of significant scale up in revenue and improvement in profitability. Thereafter, a favourable outcome with respect to the ongoing tariff issue and subsequent tariff implementation of Rs.6.10/kWh by the off-takers for two solar projects could lead to an upward movement in EPPPL's rating. Specific credit metric that could trigger a rating upgrade is interest coverage greater than 2.5 times on a sustained basis.

Negative triggers – Negative pressure on EPPPL's rating could arise if case the company is unable to shore up its liquidity position by way of timely scale up of operations and commensurate enhancement in working capital limits as required. Further, the ratings could be revised if there is slowdown in order execution due any cancellation of existing order(s) affecting revenue and profitability of the company or higher than expected debt-funded capital expenditure undertaken by the company

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated The list of companies that are consolidated to arrive at the rating are given in Annexure 2 below.

² Does not include buffer available in the sales bill discounting facilities

³ One-way interchangeability from fund-based to non-fund-based limits up to Rs.50 crore is available from one of the lenders

About the company

Emmvee Photovoltaic Power Private Limited (EPPPL), formerly Emmvee Toughened Glass and Photovoltaics Private Limited, was incorporated on March 21, 2007. The company was setup by hiving off the toughened glass unit and the photovoltaic unit from the group company, Emmvee Solar Systems Pvt Ltd (ESSPL), through a slump sale deal. EPPPL is currently wholly-held by the promoters. It is involved in the following business segments – 1) Manufacturing of photovoltaic modules, 2) EPC business for solar power projects, 3) PV systems. The photovoltaic unit, with the current installed capacity of 500 MW, started commercial production in June 2006, as part of ESSPL. The PV systems business was added on April 2010 through purchase of a group concern involved in the same business.

Key financial indicators (audited)

EPPPL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	497.7	557.2
PAT (Rs. crore)	-12.8	13.6
OPBDIT/OI (%)	19.4%	19.3%
PAT/OI (%)	-2.6%	2.4%
Total Outside Liabilities/Tangible Net Worth (times)	5.9	4.5
Total Debt/OPBDIT (times)	8.0	5.9
Interest Coverage (times)	1.4	1.6

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2020 (Rs. crore)	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019		Date & Rating in FY2018
						Feb 11, 2021	Dec 09, 2019	Apr 05, 2019	May 07, 2018	
1	Fund-based Limits	Long Term/Short Term	55.00	-	[ICRA]BBB-(Negative)/[ICRA]A3	[ICRA]BBB-(Negative)/[ICRA]A3	[ICRA]BBB+(Stable)/[ICRA]A2	[ICRA]BBB+(Positive)/[ICRA]A2	[ICRA]BBB+(Positive)/[ICRA]A2	[ICRA]BBB+(Stable)/[ICRA]A2
2	Non-fund Based Limits	Long Term/Short Term	45.00	-	[ICRA]BBB-(Negative)/[ICRA]A3	[ICRA]BBB-(Negative)/[ICRA]A3	[ICRA]BBB+(Stable)/[ICRA]A2	[ICRA]BBB+(Positive)/[ICRA]A2	[ICRA]BBB+(Positive)/[ICRA]A2	[ICRA]BBB+(Stable)/[ICRA]A2

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund based limits	-	NA	NA	55.00	[ICRA]BBB-(Negative)/[ICRA]A3
NA	Non-Fund based limits	-	NA	NA	45.00	[ICRA]BBB-(Negative)/[ICRA]A3

Source: Emmvee Photovoltaic Power Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Emmvee Energy GmbH	100.00%	Full Consolidation
Solarpark Emmvee Sokrates GmbH	100.00%	Full Consolidation
Solarpark Doberschutz GmbH	100.00%	Full Consolidation
Emmvee Verwaltungs GmbH	100.00%	Full Consolidation
ES Green Power Pvt. Ltd.	99.98%	Full Consolidation
DRES Energy Private Limited	74.00%	Full Consolidation
ES Solar Private Limited	99.99%	Full Consolidation
ES Energy Private Limited	99.99%	Full Consolidation
ES Sun Power Private Limited	99.93%	Full Consolidation
ES Neptune Solar Private Limited	99.99%	Full Consolidation

Note: The above entities have been considered as part of the consolidated financial statements of EPPPL

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