

September 02, 2021

Emmvee Photovoltaic Power Private Limited: Ratings upgraded; outlook revised to Stable

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 / [ICRA]A3+, upgraded from [ICRA]BBB-/[ICRA]A3; outlook revised to Stable from Negative
Non-fund Based Limits	45.00	45.00	[ICRA]BBB / [ICRA]A3+, upgraded from [ICRA]BBB-/[ICRA]A3; outlook revised to Stable from Negative
Total	100.00	100.00	

*Instrument details are provided in Annexure-1

Rationale

The upgrade in the ratings factors in the favourable resolution of the tariff issue for Emmvee Photovoltaic Power Private Limited's (EPPPL) 30-MW solar power generation capacity set up in Karnataka and the company's improved liquidity position driven by the receipt of overdue receivables from its joint venture (JV) company, DRES Energy Private Limited (DRES). The ratings also factor in the favourable business outlook for the domestic solar module manufacturers, given the strong policy thrust from the Government of India (GoI), through the notification of basic customs duty on imported solar PV cells and modules, the production-linked incentive (PLI) for manufacturing high efficiency modules, and the requirement of procuring solar modules from suppliers included in Approved List of Module Manufactures (ALMM), which presently features only domestic suppliers. The ratings continue to take into account the strong track record of EPPPL in the solar module manufacturing segment, its adequate order book position that provides revenue visibility in the near term, and its long association with the reputed domestic and foreign suppliers, which limits the raw material supply risks.

The revision in outlook to stable reflects ICRA's expectation that the company would be able to complete the ongoing capex within the budgeted time and cost, and subsequently scale up its revenues in a timely manner while maintaining adequate profitability levels, on the back of favourable outlook for domestic module manufacturers.

The ratings, however, are constrained by the company's leveraged capital structure and modest debt coverage indicators, and the exposure of its profitability to volatility in the 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 consider the highly concentrated though reputed customer profile for the pending order book and the exposure to competition from other manufacturers. ICRA also takes note of the risks pertaining to any devolvement of warranties given on supply of solar module, though there have not been any major warranty claims in the past few years. Further, ICRA notes that the company is in the process of enhancing its module manufacturing capacity from 500 MW to 1250 MW. The said capex is expected to be funded in a debt-to-equity mix of 80:20. The company's ability to complete the capex without any significant time and cost overrun, and subsequently scale up its revenues at healthy profitability levels, given its sizeable debt servicing obligations in the near to medium term, remains to be seen and will be a key rating 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 current installed capacity of the solar module

manufacturing facility stands at 500 MW which is in the process of being enhanced to 1250 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 the domestic solar module manufacturers remains favourable over the medium term. The greater policy thrust towards domestic manufacturing with imposition of BCD on imported cells and modules, requirement of procuring solar modules from suppliers included in Approved List of Module Manufactures (ALMM) which presently features only domestic suppliers, the notification of the production-linked incentive (PLI) scheme to improve the cost competitiveness of domestic manufacturers and a strong order pipeline aggregating about 35-40 GW over the next three to five-year period from various schemes requiring the use of domestic modules are the key drivers.

Revenue visibility by virtue of adequate order book position – As on July 31, 2021, the pending order book position of the company stood at Rs.430 crore for supply of PV modules, which provides near-term revenue visibility. Also, the customer profile of the company remains reputed.

Favourable resolution of tariff issue for 30 MW of Karnataka-based solar capacity - The company had been receiving low tariff of Rs. 4.36/kwh from BESCO (as opposed to PPA tariff of Rs.6.10/kwh) in two out of the three Karnataka-based 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. BESCO had filed a review petition in the honourable Supreme Court (SC) against the APTEL order. On May 3,2021, the SC pronounced its verdict in favour of the company and upheld the APTEL order. Consequently, BESCO has made the payments for differential tariff for the past period (approximately Rs 32 crore) and has now been making payments as per the PPA tariff of Rs 6.10/unit. With this favourable resolution of tariff issue, the cash flows of both the projects are expected to witness healthy improvement.

Improvement in liquidity position – The company's joint venture entity, DRES, received all its pending dues from the Telangana state discoms in FY2021. The same were used for clearing the payments that were due to EPPPL. As a result, EPPPL's more than 365 days receivables reduced to Rs 6.37 crore as on June 30,2021 from Rs 36.26 crore as on March 31,2020. The company's standalone liquidity also witnessed an improvement and was adequate as reflected by free cash of Rs 8.24 crore, encumbered cash of Rs 5.23 crore and undrawn fund based working capital limits of Rs 18.24 crore, as on June 30,2021.

Credit challenges

High leveraging level, moderate coverage indicators – The capital structure of the company at a consolidated level remains leveraged, with gearing of above 3.50 times and total debt/OPBDITA of above 5 times, predominantly due to past debt-funded capacity expansion, solar projects funded at a debt-to-equity ratio of 3:1, and high working capital borrowings. The coverage indicators have also remained moderate with interest coverage of below 2 times. The ability of the company to scale up its operations post the completion of ongoing capacity expansion and improve its leverage and coverage metrics remains important.

High customer concentration risk in pending order book position – The order book position is highly concentrated, with top-two customers accounting for ~88% 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

Exposure of profitability to movement in solar cell prices – The profitability indicators remain exposed to volatility and price movements of solar cells and modules. The company is able to pass on the higher cost of manufacturing to the end consumer for DCR orders, thereby partly mitigating the price risk.

Competition from other manufacturers – The domestic solar module manufacturing industry faces competition from imports given the price advantage that the latter possess. While the Safe Guard Duty (SFG) on imports has ended on July 30, 2021, the implementation of Basic Customs Duty (BCD) of 25% on cells and 40% on modules from April 01, 2022 is expected to improve the competitiveness of domestic module manufacturers against the imports to a large extent. Nonetheless, the risk of imports persists during the nine months window till the implementation of BCD. Moreover, given the significant policy push towards domestic manufacturing, the competition within the domestic manufacturing set-up is expected to increase, as evidenced from announcement of capex plans by some of the larger players.

Ongoing debt-funded capacity expansion – EPPPL is in the process of enhancing its module manufacturing capacity from 500 MW to 1250 MW. The total cost of Rs 60 crore is expected to be funded in a debt to equity mix of 80:20. The management expects the capex to be completed by December 2021. The company's ability to tie-up the required debt funding in a timely manner, complete the capex without any significant time and cost overrun, and subsequently scale up the revenues while maintaining healthy profitability levels remain important, given its sizeable debt servicing obligation in the near to medium term.

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, the warranty claims have remained low, which provides assurance on the quality of company's products and services. The company has written back unutilised warranty provision aggregating to ~Rs.4.50 crore in the last two fiscals.

Liquidity position: Adequate

The company's liquidity position is **adequate**, supported by improvement in liquidity buffer and expected scale up in revenues and profitability in FY2022 over FY2021, with the presence of adequate order book position. As on June 30, 2021, on a standalone basis, EPPPL had free cash of Rs 8.24 crore, encumbered cash of Rs 5.23 crore and undrawn fund-based working capital limits of Rs 18.24 crore. The average utilisation of the sanctioned fund-based and non-based limits of Rs.55 crore and Rs.45 crore² has remained above 90% in the last 12 months ending June 30, 2021. The company has relied on sales bill discounting limits from other banks to support its working capital requirements. Given the capacity expansion under way, commensurate enhancement in working capital limits remain important. The solar assets under its various subsidiaries (German as well as Indian) are expected to be self-sufficient for meeting their debt servicing requirements.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company is able to demonstrate significant scale up in revenues while maintaining healthy profitability levels. Specific credit metric that could trigger a rating upgrade is interest coverage greater than 3 times on a sustained basis.

Negative factors – Negative pressure on EPPPL's rating could arise if the company is unable to scale up its operations in a timely manner and secure commensurate enhancement in working capital limits as required. Further, the ratings could be revised if there is a slowdown in order execution due to cancellation of existing order(s) or lack of fresh orders affects the company's revenue and profitability or any significant time and cost overrun in the ongoing debt-funded capital expenditure.

² One-way interchangeability from fund-based to non-fund-based limits up to Rs.50 crore is available from one of the lenders

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.

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)

Parameter	Standalone		Consolidated	
	FY2020 (Audited)	FY2021 (Provisional)	FY2019 (Audited)	FY2020 (Audited)
Operating Income (Rs. crore)	491.64	363.28	497.72	557.23
PAT (Rs. crore)	4.10	1.84	-12.78	13.61
OPBDIT/OI (%)	11.13%	15.77%	19.36%	19.25%
PAT/OI (%)	0.83%	0.51%	-2.57%	2.44%
Total Outside Liabilities/Tangible Net Worth (times)	2.61	2.76	5.92	4.52
Total Debt/OPBDIT (times)	5.95	6.61	8.00	5.89
Interest Coverage (times)	1.73	1.92	1.42	1.65

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; FY2021 consolidated financials were not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

SN	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019		
					Sep 02, 2021	Feb 11, 2021	Dec 09, 2019	Apr 05, 2019	May 07, 2018	Apr 02, 2018	
1	Fund-based Limits	Long Term/Short Term	55.00	-	[ICRA]BBB(Stable)/[ICRA]A3+	[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	
2	Non-fund Based Limits	Long Term/Short Term	45.00	-	[ICRA]BBB(Stable)/[ICRA]A3+	[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	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long/Short Term, Fund-based	Simple
Long/Short Term, Non-fund based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

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	Long/Short term, Fund based limits	-	-	-	20.00	[ICRA]BBB (Stable)/ [ICRA]A3+
NA	Long/Short term, Fund based limits	-	-	-	35.00	[ICRA]BBB (Stable)/ [ICRA]A3+
NA	Long/Short term, Non-Fund based limits	-	-	-	30.00	[ICRA]BBB (Stable)/ [ICRA]A3+
NA	Long/Short term, Non-Fund based limits	-	-	-	15.00	[ICRA]BBB (Stable)/ [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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