

August 11, 2022

Emmvee Photovoltaic Power Private Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term – Fund-based limits	55.00	45.00	[ICRA]BBB+ (Stable)/[ICRA]A2, upgraded from [ICRA]BBB (Stable)/[ICRA]A3+
Long-term/Short-term – Non-fund based limits	45.00	45.00	[ICRA]BBB+ (Stable)/[ICRA]A2, upgraded from [ICRA]BBB (Stable)/[ICRA]A3+
Long-term/Short-term - Unallocated	-	10.00	[ICRA]BBB+ (Stable)/[ICRA]A2, upgraded from [ICRA]BBB (Stable)/[ICRA]A3+
Total	100.00	100.00	

*Instrument details are provided in Annexure-I

Rationale

The upgrade in the ratings of Emmvee Photovoltaic Power Private Limited (EPPPL) factors in the completion of the new 750-MW solar photovoltaic (PV) module production line, funded through a mix of internal accruals and proceeds from the divestment of 40 MW of solar assets in Karnataka, thereby keeping the reliance on external debt for capex low. The enhancement in the module production capacity to 1,250 MW from 500 MW, along with a healthy order position of Rs. 2,949 crore as of June 2022 (5.8 times the operating income of FY2022), is expected to significantly scale up the revenues and profitability in FY2023 and FY2024, thereby improving EPPPL's credit metrics.

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 (BCD) on imported solar PV cells and modules, the requirement of procuring solar modules from suppliers included in Approved List of Module Manufactures (ALMM), which presently features only domestic suppliers and the production-linked incentive (PLI) for manufacturing high efficiency modules, along with the strong project pipeline in the solar power sector. The ratings continue to take into account the strong track record of EPPPL in the solar module manufacturing segment and its long association with reputed domestic and foreign suppliers, which limits the raw material supply risks.

The ratings, however, are constrained by the company's leveraged capital structure and modest debt coverage indicators, owing to the debt-funded capex over the years and high working capital borrowings. Therefore, the ability of the company to ramp up operations of the new capacity would remain important to improve the leverage and coverage metrics, going forward. Moreover, the company's ability to secure additional working capital lines as it scales up remains important.

ICRA also takes note of the exposure of EPPPL's profitability to the volatility in raw material (RM) prices, mainly solar PV cells, glass, back sheet and aluminium frame, among others, and the fluctuation in foreign exchange as the cells are largely imported. Nonetheless, EPPPL is mitigating this risk through a pass-through arrangement for raw material costs under its contracts with key customers, which account for a majority portion of the outstanding order book. The ratings also consider the highly concentrated, though reputed, customer profile for the pending order book and the exposure to the risk of delays in the execution of projects by the customers.

Further, ICRA notes that domestic module manufacturing sector is characterised by stiff competition and continues to attract new players, given the transition in energy requirements from fossil fuel to renewable sources, with a higher share towards the solar sector. Moreover, there is continuous innovation on the product side in the global market, which necessitates continuous upgrades and investments in the products development by the company. ICRA also takes note of the risks

pertaining to any devolvement of warranties given on supply of solar modules, though there have not been any major warranty claims in the past few years.

The Stable outlook on the ratings reflects ICRA's expectation that the company would be able to scale up its revenues over the near to medium term, while maintaining adequate profitability levels, given the adequate order book position and the favourable outlook for domestic module manufacturers.

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 has been enhanced to 1,250 MW from 500 MW recently, which will enable the company to scale up its operations significantly, going forward.

Favourable demand outlook for domestic module manufacturers – The demand outlook for the domestic solar module manufacturers remains favourable over the medium term. The Government of India's greater policy thrust towards domestic manufacturing with the imposition of BCD on imported cells and modules, the requirement of procuring solar modules from suppliers included in the ALMM which presently features only domestic suppliers, the notification of the PLI scheme to improve the cost competitiveness of domestic manufacturers and a strong project pipeline in the solar power sector are the key drivers.

Revenue visibility by virtue of healthy order book position – As of June 2022, the company's pending order book position was Rs. 2,949 crore for the supply of PV modules, which is 5.8 times the revenues reported in FY2022, thereby providing revenue visibility over FY2023 and FY2024.

Divestment of solar assets and commissioning of enhanced capacity to improve credit metrics – EPPPL had set up 40-MW AC/46-MW DC solar power projects through its three subsidiaries - ES Energy Private Limited, ES Solar Private Limited and ES Sun Power Private Limited - in Karnataka. These projects were fully commissioned in October 2017. Following the resolution of the tariff issue with the offtakers, the company has divested its stake in these SPVs. This has enabled the company to reduce its debt at a consolidated level and use the proceeds from the sale to fund its capex for module capacity expansion. Further, the company has signed a definitive agreement for the sale of 74% equity stake in the 15 MW operational solar power asset in Telangana under DRES Energy Private Limited. The divestment of the solar assets and scaling up of the operations following the commissioning of the 750-MW line is expected to improve the credit metrics of the company, going forward.

Credit challenges

Relatively high leverage and moderate coverage metrics - The capital structure of the company remains leveraged, with total debt/OPBDITA of above 5 times, predominantly due to past debt-funded capacity expansion and high working capital borrowings. The coverage indicators have also remained moderate with interest coverage of 1.9 times in FY2021 and 2.1 times in FY2022. Nonetheless, the company has used the proceeds from the divestment of 40-MW solar assets to fund the capacity expansion, leading to relatively low reliance on external debt for the capex. The ability of the company to ramp up the operations of the new capacity would remain important to improve the leverage and coverage metrics, going forward.

High customer concentration risk in pending order book position – The order book position is highly concentrated, with the top three customers accounting for ~88% of the total order book position. However, the risk is mitigated to a certain extent given the reputed customer profile and the presence letter of credit (LC)-backed payments/advance payments before despatch. Further, any execution delays by the customers may impact the company's revenue and profitability.

Exposure of profitability to movement in raw material prices – The profitability indicators remain exposed to the volatility in price movements of key raw materials (RM) like solar cells, glass, backsheet and aluminium, among others. Moreover, given the lack of backward integration and limited capacities in India, the company remains dependent on imports for solar cells, exposing it to pricing and availability risks. Nonetheless, the company is mitigating this risk through a pass-through arrangement for RM costs under the contracts with key customers, which account for a majority portion of the outstanding order book.

Competition from other manufacturers – While the competition from imports is mitigated through policy measures like ALMM and imposition of BCD, the company remains exposed to competition from other domestic manufacturers, especially with the announcement of large expansion plans by existing players and entry of large new players.

Risk of devolvement of warranties on solar modules – The operations remain exposed to risks pertaining to any devolvement of warranties on the supply of solar modules. However, the warranty claims have remained low so far, which provides assurance on the quality of the company’s products and services.

Liquidity position: Adequate

The company’s liquidity position is expected to be adequate with the scale-up in revenues and profitability in FY2023, backed by an adequate order book position and increase in production capacity. Further, comfort is drawn from the available liquidity buffer, with free cash and bank balances of Rs 37.4 crore and undrawn fund-based working capital limits of Rs 8.3 crore on a standalone basis as on March 31, 2022. This apart, the company relies on bill discounting and buyer credit facilities to support its working capital requirements.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company is able to demonstrate a significant scale-up in revenues and profitability, thereby strengthening the credit metrics and liquidity position. A specific credit metric that could trigger a rating upgrade is interest coverage of more than 4.0 times on a sustained basis.

Negative factors – Negative pressure on EPPPL’s ratings could arise if the company is unable to scale up its operations in a timely manner from the 750-MW line 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 the cancellation of existing order(s) or lack of fresh orders, affecting the company’s revenue and profitability. Also, an elongation of the working capital cycle, adversely impacting the company’s liquidity position, would be a trigger for downgrade. A specific credit metric that could trigger a rating downgrade is an interest coverage below 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financial profile of the company. The list of subsidiaries considered for consolidation are provided in Annexure-II

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 set up 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. EPPPL manufactures solar photovoltaic (SPV) modules, and acts as an EPC (engineering, procurement, construction) contractor to set up solar power plants. The company currently has a module manufacturing capacity of 1,250 MW, enhanced from 500 MW following the commissioning of the new 750-MW line in July 2022. This apart, the company operates 15 MW solar power project in Telangana through a 74:26 JV with Dr. Reddy Labs and 10 MW solar power assets in Germany.

Key financial indicators (audited)

Parameter	Standalone			Consolidated	
	FY2020	FY2021	FY2022 [^]	FY2020	FY2021
Operating income	491.6	363.7	508.3	557.2	424.2
PAT	4.1	3.4	8.2	13.6	9.3
OPBDIT/OI	11.1%	16.6%	12.6%	19.3%	26.6%
PAT/OI	0.8%	0.9%	1.6%	2.4%	2.2%
Total outside liabilities/Tangible net worth (times)	2.6	2.7	2.8	4.5	4.4
Total debt/OPBDIT (times)	6.0	6.3	5.9	5.9	6.1
Interest coverage (times)	1.7	1.9	2.1	1.7	1.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

[^]provisional and unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as on July 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020	
				Aug 11, 2022	Sep 02, 2021	Feb 11, 2021	Dec 09, 2019	Apr 05, 2019	
1 Fund based limits	Long-term / Short-term	45.00	-	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB (Stable) / [ICRA]A3+	[ICRA]BBB- (Negative) / [ICRA]A3	[ICRA]BBB- (Negative) / [ICRA]A3	[ICRA]BBB+ (Stable) / [ICRA]A2	
2 Non-fund based limits	Long-term / Short-term	45.00	-	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB (Stable) / [ICRA]A3+	[ICRA]BBB- (Negative) / [ICRA]A3	[ICRA]BBB- (Negative) / [ICRA]A3	[ICRA]BBB+ (Stable) / [ICRA]A2	
3 Unallocated	Long-term / Short-term	10.00	-	[ICRA]BBB+ (Stable) / [ICRA]A2	-	-	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term / Short-term - Fund based limits	Simple
Long-term / Short-term - Non-fund based limits	Very Simple
Long-term / Short-term - Unallocated	NA

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 analysing 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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based limits	-	-	-	20.00	[ICRA]BBB+ (Stable)/ [ICRA]A2
NA	Fund based limits	-	-	-	25.00	[ICRA]BBB+ (Stable)/ [ICRA]A2
NA	Non-Fund based limits	-	-	-	30.00	[ICRA]BBB+ (Stable)/ [ICRA]A2
NA	Non-Fund based limits	-	-	-	15.00	[ICRA]BBB+ (Stable)/ [ICRA]A2
NA	Unallocated	-	-	-	10.00	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	KTL 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 Neptune Solar Private Limited	99.99%	Full Consolidation

Source: Company

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