

September 08, 2023

Emmvee Photovoltaic Power Private Limited: Ratings reaffirmed; outlook revised to Negative; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term – Fund-based facilities	45.00	95.00	[ICRA]BBB+ (Negative)/[ICRA]A2; reaffirmed/assigned for enhanced amount; outlook revised from Stable
Long term – Fund based – Term loans	0.00	41.67	[ICRA]BBB+ (Negative); assigned
Long term/Short term – Non-fund based facilities	45.00	45.00	[ICRA]BBB+ (Negative)/[ICRA]A2; reaffirmed; outlook revised from Stable
Short term - Interchangeable - LC/BG	0.00	(25.00)	[ICRA]A2; assigned
Long term/Short term – Unallocated	10.00	13.33	[ICRA]BBB+ (Negative)/[ICRA]A2; reaffirmed/assigned for enhanced amount; outlook revised from Stable
Total	100.00	195.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook from Stable to Negative for the long-term rating assigned to Emmvee Photovoltaic Power Private Limited (EPPPL) factors in the large debt-funded capex being undertaken by the company through its subsidiary, Emmvee Energy Private Limited, to set up a 1,500-MW solar PV cell and module manufacturing facility at a cost of Rs. 1,337.5 crore, funded through debt and equity of 75:25. This is expected to increase the company's leverage level in the near term and lead to dependence on external sources for funding the equity component. The company's ability to complete the capex without any major time and cost overrun, and subsequently scale up its revenues and profitability will be a key rating monitorable. Nonetheless, comfort is drawn from the demonstrated track record of the company, including in commissioning the 750-MW module line in FY2023. Also, the company is eligible to receive capital subsidy in the range of Rs. 320-350 crore for this project under the Electronics System Design and Manufacturing (ESDM) scheme and Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS). However, the timely receipt of the capital subsidy, post commissioning, remains to be seen.

The reaffirmation of the ratings for EPPPL consider the improvement in the company's revenues and profitability in FY2023, led by higher realisation and gain from sale of solar assets in its subsidiaries. Moreover, the enhancement in the module production capacity to 1,250 MW from 500 MW in July 2022, a healthy order position of Rs. 2,206 crore as of July 2023 (3.1 times the operating income of FY2023), the likely improvement in solar capacity addition in India and buoyant export demand are expected to scale up the revenues and profitability in FY2024. The ratings continue to factor in the favourable business outlook for domestic solar module manufacturers, given the policy thrust from the Government of India (GoI) along with the strong project pipeline in the solar power sector. The ratings continue to consider the strong track record of EPPPL in solar module manufacturing 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 moderate debt coverage indicators, owing to the debt-funded capex over the years and 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. Also, the timely commissioning of the new cell and module line is an important milestone for the company. 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 aluminum 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. Further, the commissioning of the proposed cell line will mitigate this risk to a certain extent. The ratings also consider the highly concentrated, though reputed, customer profile for the pending order book and the risk of delays in the execution of projects by the customers.

Further, ICRA notes that the domestic module manufacturing sector is characterised by stiff competition and continues to attract new players, given the transition 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 regular upgrades and investments in product development by the company. ICRA also takes note of the risks pertaining to any devolvement of warranties given on the supply of solar modules, though there have not been any major warranty claims in the last few years.

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 a manufacturing capacity of 1,250 MW and a demonstrated track record of over a decade. The 750-MW augmented capacity commissioned in July 2022 will enable the company to scale up its operations significantly in the near term.

Favourable demand outlook for domestic module manufacturers – The demand outlook for domestic solar module manufacturers remains favourable, supported by the energy transition targets announced by the Government of India with focus on the solar power sector, along with the Govt's plan to promote the development of domestic solar PV manufacturing value chain. This is reflected through policies such as imposition of BCD on imported cells and modules, the requirement of procuring solar modules from suppliers included in the approved list of module manufacturers (ALMM) which now features only domestic suppliers and the notification of the production-linked incentive (PLI) scheme to improve the cost competitiveness of domestic manufacturers. While the ALMM is under suspension till March 31, 2024, the order inflow is supported by the large capacity addition expected in the sector and healthy export demand, mainly from the US.

Revenue visibility from healthy order book position – The company's pending order book position was Rs. 2,206 crore as of July 2023 for the supply of PV modules, which is 3.1 times the revenues reported in FY2023, thereby providing revenue visibility over FY2024 and FY2025. Also, the company is receiving regular orders from the solar water pump segment.

Credit challenges

Relatively high leverage and moderate coverage metrics; ongoing debt-funded capacity expansion to increase leverage - The capital structure of the company remains leveraged, with total debt/OPBDITA above 4 times, predominantly due to past debt-funded capacity expansion and working capital borrowings. Also, the debt coverage metrics remain moderate, despite the improvement observed in FY2023. Moreover, EPPPL is in the process of setting up a solar PV cell and module manufacturing capacity of 1,500 MW under its subsidiary – Emmvee Energy Private Limited - at a cost of Rs. 1,337.5 crore funded through a debt of Rs. 1,003.13 crore. This plant is scheduled to be commissioned by March 2024. This is expected to increase the company's leverage level in the near term and lead to dependence on external sources for funding the equity component. The ability of the company to complete the capex within the budgeted timeline and cost, along with a timely ramp-up of operations for the new unit, would be a key monitorable.

High customer concentration risk in pending order book position – The order book position is highly concentrated, with the top three customers accounting for ~75% 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 dispatch. Any execution delays by these customers would adversely impact the company's ability to scale up its revenue and profitability.

Exposure of profitability to movement in raw material prices and competitive pressure – 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. Further, the commissioning of the proposed cell line will mitigate this risk to a certain extent, going forward. Also, the company remains exposed to competition from other domestic manufacturers, especially with the announcement of large expansion plans by existing players and the entry of big 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 FY2024, backed by a healthy order book position and increase in production capacity. Further, comfort is drawn from the available liquidity buffer, with undrawn working capital limits of Rs. 17.78 crore on a standalone basis as on June 30, 2023. This apart, the company relies on bill discounting and buyer credit facilities to support its working capital requirements. The funding for the ongoing capex is expected to be through debt, internal accruals and external funding support, including from the promoter.

Rating sensitivities

Positive factors – The revision in the outlook from Negative to Stable is linked to the timely commissioning of the ongoing capacity expansion without any major cost overrun. Thereafter, 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.

Negative factors – Pressure on EPPPL's ratings could arise if the company is unable to scale up its operations either due to 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 or delays in completing the ongoing capacity expansion, adversely impacting the company's liquidity position and debt coverage metrics, would be a trigger for downgrade. A specific credit metric for downgrade would be DSCR below 1.4 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 ratings are 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 Group company, Emmvee Solar Systems Pvt Ltd (ESSPL), through a slump sale deal. EPPPL is currently wholly held by the promoters, namely Mr. Manjunatha D.V. and Mrs. Shubha Manjunatha. EPPPL manufactures solar photovoltaic (SPV) modules, and acts as an EPC (engineering, procurement, construction) contractor to set up solar power plants. The company 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 8-MW solar power assets in Germany.

The company plans to undertake further capacity expansion by setting up a 1,500-MW solar PV integrated cell and module manufacturing facility in Bengaluru under its subsidiary, Emmvee Energy Private Limited. The company is expected to incur a capex of Rs. 1,337.51 crore for the new project, funded through debt and equity of 75:25. The company has received the requisite approvals and the project is expected to be commissioned by March 2024.

Key financial indicators (Audited)

EPPPL	Standalone			Consolidated	
Parameters	FY2021	FY2022	FY2023	FY2021	FY2022
Operating income	363.7	508.4	705.6	424.2	555.7
PAT	3.4	8.5	22.7	9.3	10.8
OPBDIT/OI	16.6%	12.4%	9.9%	25.5%	18.7%
PAT/OI	0.9%	1.7%	3.2%	2.2%	2.0%
Total outside liabilities/Tangible net worth (times)	2.7	2.8	2.2	4.4	3.9
Total debt/OPBDIT (times)	6.3	5.7	4.0	6.1	5.5
Interest coverage (times)	1.9	2.1	3.0	1.8	2.1

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of Rating History for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Jun 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Sept 08, 2023	Aug 11, 2022	Sept 02, 2021	Feb 11, 2021
1 Fund-based facilities	Long term and short term	95.00	-	[ICRA]BBB+ (Negative)/[ICRA]A2	[ICRA]BBB+ (Stable)/[ICRA]A2	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB- (Negative)/[ICRA]A3
2 Fund-based facilities – Term loans	Long term	41.67	41.67	[ICRA]BBB+ (Negative)	-	-	-
3 Non-fund based facilities	Long term and short term	45.00	-	[ICRA]BBB+ (Negative)/[ICRA]A2	[ICRA]BBB+ (Stable)/[ICRA]A2	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB- (Negative)/[ICRA]A3
4 Interchangeable - LC/BG	Short Term	(25.00)	-	[ICRA]A2	-	-	-
5 Unallocated limits	Long term and	13.33	-	[ICRA]BBB+ (Negative)/[ICRA]A2	[ICRA]BBB+ (Stable)/[ICRA]A2	-	-

short
term

Complexity Level of the Rated Instruments

Instrument	Complexity Indicator
Long term/Short term – Fund-based facilities	Simple
Long term – Fund based – Term loans	Simple
Long term/Short term – Non-fund based facilities	Very Simple
Short term – Interchangeable – LC/BG	Very Simple
Long term/Short term – Unallocated	Not Applicable

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
-	Fund-based facilities	-	-	-	95.00	[ICRA]BBB+ (Negative)/[ICRA]A2
-	Fund-based facilities – Term loans	FY2023	-	FY2031	41.67	[ICRA]BBB+ (Negative)
-	Non-fund based facilities	-	-	-	45.00	[ICRA]BBB+ (Negative)/[ICRA]A2
-	Interchangeable - LC/BG	-	-	-	(25.00)	[ICRA]A2
-	Unallocated limits	-	-	-	13.33	[ICRA]BBB+ (Negative)/[ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	EPPPL 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
Emmvee Energy Private Limited	100.00%	Full Consolidation
ES Neptune Solar Private Limited	99.99%	Full Consolidation

Source: Company

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