

October 24, 2024

Emmvee Photovoltaic Power Private Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/short-term – Fund-based facilities	95.00	100.00	[ICRA]BBB+ (Positive)/ [ICRA]A2; reaffirmed; outlook revised to Positive from Negative
Long-term – Fund based – Term loans	41.67	37.44	[ICRA]BBB+ (Positive); reaffirmed; outlook revised to Positive from Negative
Long-term/short-term – Non-fund based facilities	45.00	55.00	[ICRA]BBB+ (Positive)/ [ICRA]A2; reaffirmed; outlook revised to Positive from Negative
Short-term - Interchangeable - LC/BG	(25.00)	(25.00)	[ICRA]A2; reaffirmed
Long-term/short-term – Unallocated	13.33	2.56	[ICRA]BBB+ (Positive)/ [ICRA]A2; reaffirmed; outlook revised to Positive from Negative
Total	195.00	195.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook to Positive for the long-term rating assigned to Emmvee Photovoltaic Power Private Limited (EPPPL) factors in the revenue visibility on the back of healthy order book position, commissioning of expanded capacity and 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 company commissioned (under its subsidiary Emmvee Energy Private Limited, EEPL) its 1,500-MW integrated solar PV cell and module manufacturing facility in September 2024, taking its total installed module manufacturing capacity to 2,750 MW and is expected to add another 1,500-MW module manufacturing capacity by December 2024, thereby increasing the module capacity to 4,250 MW. The company is eligible to receive capital subsidy in the range of Rs. 320-350 crore for the 1,500-MW cell and module line 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 remains to be seen.

The ratings consider the robust improvement in EPPL's profitability and accruals in FY2024, primarily led by higher sales volume from its existing 1,250-MW module manufacturing capacity and stable contribution margin even as the realisations contracted during the year. Moreover, the ratings continue to consider the strong track record of EPPPL in solar module manufacturing and its long associations with reputed domestic and foreign suppliers, which limits raw material supply risks. An expanded capacity base, coupled with sizeable order book, is expected to lead to strong growth in revenues and profitability over the next two years. Also, the company is likely to benefit from healthy export demand for Indian manufacturers, which will support the economics of its integrated cell to module line.

The ratings are, however, 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 its leverage and debt 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 aluminum frame, among others. While the company will remain exposed to variation in exchange rate

on imported cells, with the commissioning of integrated cell to module line the risk will be mitigated to some extent. However, the cost competitiveness of domestic solar cells remains relatively weaker compared to imported cells. Nonetheless, EPPPL is mitigating these input cost risks 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 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 module manufacturing capacity of 1,250 MW and 1,500-MW integrated cell cum module manufacturing under its subsidiary EEPL. The Group is adding another 1,500-MW module line, which will take the overall module manufacturing capacity to 4,250 MW by December 2024. The company has a demonstrated track record of over a decade in the module manufacturing business.

Favourable demand outlook for domestic module manufacturers - The demand outlook for domestic solar module manufacturers remains favourable, supported by energy transition targets announced by the Government of India with focus on the solar power sector, along with the GoI's plan to promote the development of the domestic solar PV manufacturing value chain. This is reflected through policies such as imposition of basic customs duty (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.

Revenue visibility from healthy order book position and commissioning of expanded capacity - The company's pending order book position was ~Rs. 5,994 crore as of October 15, 2024 for the supply of PV modules, thereby providing revenue visibility over FY2025 and FY2026. The above orderbook includes large order from NTPC Renewable Energy Ltd for supplying solar PV modules of ~795 MW with use of domestic cells in current financial year apart from other orders from reputed players. This is expected to lead to significant scale-up in revenues and profitability for the company in FY2025 and FY2026.

Improved performance in FY2024 - The company demonstrated a robust improvement in profitability and accruals in FY2024 over FY2023, led primarily by higher sales volume from its existing 1,250-MW module manufacturing capacity and stable contribution margin even as the realisations contracted during the year. This has enabled an improvement in debt coverage metrics in FY2024 over FY2023.

Credit challenges

Relatively high leverage and moderate coverage metrics; likely to improve over the medium term - The capital structure of the company remains leveraged, with total debt/OPBDITA above 8.46 times in FY2024, predominantly due to debt-funded solar PV cell and module manufacturing capacity of 1,500 MW under its subsidiary, EEPL, which has recently commissioned. This was set up at a cost of Rs. 1,733 crore, with 75% debt funding. In addition, EEPL is setting up additional module capacity of 1.5 GW at a cost of Rs. 216 crore to be funded in debt:equity mix of 75:25, which is likely to commence operations by end December 2024. While the leverage remains high and debt coverage metrics moderate, they are likely to improve over the

medium term, on the back of expected growth in revenues and profitability, following the commissioning of the expanded capacity and healthy order execution.

High customer concentration risk in pending order book position - The order book is highly concentrated, with the top five customers accounting for ~80% of total orders. However, the risk is mitigated to a certain extent, given the reputed customer profile and letter of credit (LC)-backed/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. 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 recent commissioning of the cell line mitigates this risk to a certain extent. Also, the company remains exposed to competition from other domestic manufacturers, especially with the announcement of large expansion plans by existing players and 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 FY2025, backed by a healthy order book position and increase in production capacity. The company's liquidity is supported by the advances received from customers for the ongoing orders. Further, comfort is drawn from the available liquidity buffer, with undrawn working capital limits of Rs. 20 crore as on June 30, 2024 at a standalone level. Also, EEPL is availing additional working capital limits of Rs. 250 crore, out of which Rs. 125 crore has been principally approved by banks so far.

Rating sensitivities

Positive factors – The ratings could be upgraded, if the company is able to demonstrate a significant scale-up in revenues and profitability, leading to improvement in credit metrics and liquidity position. A specific credit metric for upgrade would be total debt/OPBIDTA falling below 2.5 times on a sustained basis.

Negative factors – Pressure on EPPPL's ratings could arise, if the company is unable to scale-up its operations 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 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 profiles of the company. The list of subsidiaries considered for consolidation are provided in Annexure-II

About the company

EPPPL, set up in March 2007, is involved in manufacturing of solar photovoltaic (PV) cells and modules. 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 has set up a 1,500-MW solar PV integrated cell and module manufacturing facility in Bengaluru, Karnataka, under its subsidiary, EEPL, which commenced from September 2024. The total project cost for this facility was Rs. 1,733 crore funded through 75:25 of debt and equity. The company plans to undertake further capacity expansion by setting up a 1,500-MW module manufacturing facility in Bengaluru under its subsidiary, EEPL, at a cost of Rs. 216 crore, funded through debt and equity of 75:25. EPPPL is currently wholly held by the promoters, Mr. Manjunatha D.V and Mrs. Shubha Manjunatha.

Key financial indicators (audited)

EPPPL Consolidated	Consolidated	
Parameters	FY2023	FY2024
Operating income	616.17	964.23
PAT	23.22	74.80
OPBDIT/OI	12.29%	17.71%
PAT/OI	3.77%	7.76%
Total outside liabilities/Tangible net worth (times)	3.29	6.66
Total debt/OPBDIT (times)	6.88	8.46
Interest coverage (times)	3.08	6.21

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore; 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 (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	October 24, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund-based facilities	Long-term/Short-term	100.00	[ICRA]BBB+ (Positive)/[ICRA]A2	08-Sep-23	[ICRA]BBB+ (Negative)/[ICRA]A2	11-Aug-22	[ICRA]BBB+ (Stable)/[ICRA]A2	02-Sep-21	[ICRA]BBB (Stable)/[ICRA]A3+
Fund based – Term loans	Long-term	37.44	[ICRA]BBB+ (Positive)	08-Sep-23	[ICRA]BBB+ (Negative)	-	-	-	-
Non-fund based facilities	Long-term/Short-term	55.00	[ICRA]BBB+ (Positive)/[ICRA]A2	08-Sep-23	[ICRA]BBB+ (Negative)/[ICRA]A2	11-Aug-22	[ICRA]BBB+ (Stable)/[ICRA]A2	02-Sep-21	[ICRA]BBB (Stable)/[ICRA]A3+
Interchangeable – LC/BG	Short-term	(25.00)	[ICRA]A2	08-Sep-23	[ICRA]A2	-	-	-	-
Unallocated	Long-term and short-term	2.56	[ICRA]BBB+ (Positive)/[ICRA]A2	08-Sep-23	[ICRA]BBB+ (Negative)/[ICRA]A2	11-Aug-22	[ICRA]BBB+ (Stable)/[ICRA]A2	-	-

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	-	-	-	100.00	[ICRA]BBB+ (Positive)/[ICRA]A2
-	Fund-based facilities – Term loans	FY2023	-	FY2031	37.44	[ICRA]BBB+ (Positive)
-	Non-fund based facilities	-	-	-	55.00	[ICRA]BBB+ (Positive)/[ICRA]A2
-	Interchangeable - LC/BG	-	-	-	(25.00)	[ICRA]A2
-	Unallocated limits	-	-	-	2.56	[ICRA]BBB+ (Positive)/[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

Source: Company; * as on March 31, 202; ^ held by Emmvee Energy GmbH

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