

Emmvee Photovoltaic Power Private Limited

April 02, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	50.00	50.00	[ICRA]BBB+/[ICRA]A2 reaffirmed; Outlook revised to 'Positive' from Stable
Non-fund based limits	30.00	30.00	[ICRA]BBB+/[ICRA]A2 reaffirmed; Outlook revised to 'Positive' from Stable
Total	80.00	80.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) and the short-term rating of [ICRA]A2 (pronounced ICRA A two) assigned to the Rs. 50-crore fund-based limits and Rs. 30-crore non-fund based limits of Emmvee Photovoltaic Power Private Limited (EPPPL). The outlook on the long-term rating has been revised from 'Stable' to 'Positive'.

Rationale

The revision in rating outlook takes into consideration the expected improvement in EPPPL's scale of operations supported by favourable demand outlook for solar modules domestically given the policy push from the government; and tariff competitiveness of solar power; given that the company has expanded its solar module manufacturing capacity from 135 MW to 500 MW which is operational since January 2017. ICRA also takes note of the sale of the solar power project assets (40 MW capacity under wholly owned subsidiaries; operational since October 2017) which is at advanced stages subject to approvals.

The ratings further continue to positively factor in the long track record of EPPPL in the solar power module manufacturing space and the established association of the company with in-place agreements with reputed solar cell manufacturers which reduces risks on the supply side. The ratings also take into consideration the favourable demand outlook for solar modules from utility scale projects as well as from industrial and commercial consumers, given that the tariff competitiveness of solar power has improved as compared to that of other renewable power generation sources, in the recent past. In addition, the government's thrust and policy initiatives to encourage the domestic manufacturing of solar modules would also remain a growth driver for EPPPL.

The ratings, however, remain constrained by the vulnerability of EPPPL's profitability to movement in spread between prices of solar cells and solar modules, given that solar cells are imported and constitute a major portion of the company's cost structure. The ratings further remain constrained by the relatively high gearing levels of the company (standalone level) owing to debt-funded capacity expansion plan undertaken in FY2017 and its moderate debt protection metrics. While the debt level on a consolidated basis remains high with leveraging level of about 3.4 times as on December 2017, the proposed plan for sale of the 40 MW solar power plant is expected to provide deleveraging in the near term and hence, timely completion of the same remains crucial. ICRA also takes a note of the company's recent winning of solar project for 80 MW in February 2017 in bidding route by Karnataka Renewable Energy Development Agency and the uncertainty associated with signing of PPA in respect of the same. In this context, any significant increase in debt levels associated with the new projects if won under bidding route, going forward remains a rating monitorable. ICRA further notes that the extent of ramp-up in utilisation of module manufacturing facility (which is currently at about

50%) remains important, given the debt funded nature of capital expenditure. The ratings are further constrained by the high competitive intensity in the solar module industry especially from imports. Nonetheless, an increase in the price levels of PV modules internationally in last six month period, coupled with an import duty (7.5%) on modules since October 2017 has benefited the company, against the import competition. While the provisional safeguard duty as proposed by Directorate General of Safeguards (DGS) is yet to be notified, the company may benefit through better competitiveness against the imported panels post implementation of such duty given that the same is applicable both on solar cells and the panels. Nonetheless, both the timelines and quantum of safeguard duty still remain uncertain.

Outlook: Positive

The 'Positive' outlook reflects ICRA's expectations that EPPPL will continue to benefit from the favourable demand outlook for solar modules, which will lead to scale up in the operations given the increased tariff competitiveness of solar power as compared to that of other renewable power sources and the thrust of the Government on domestic manufacturing of solar power modules. The outlook may be revised to 'Negative' in case of further increase in the debt burden of the company or steep reduction in profitability levels which would weaken its overall debt protection metrics.

Key rating drivers

Credit strengths

Established presence in the solar module manufacturing industry – EPPPL is an established player in the solar module manufacturing sector with experience of over a decade. The installed capacity of the solar module manufacturing unit was enhanced from 135 MW to 500 MW in FY2017.

Significant improvement in module production levels in the ongoing FY2018 – The module production level of EPPPL improved significantly in FY2017 and 11M FY2018 to 107 MW and 215 MW respectively aided by a healthy order in-flow from external customers as well as EPC requirements for the projects undertaken under wholly owned subsidiaries.

Low raw material supply risks – EPPPL has solar cell procurement arrangements in place with reputed domestic and foreign suppliers. This reduces risks on the raw material supply side for the company.

Favourable demand outlook for solar power modules – The demand outlook for the solar power sector remains healthy aided by various State and Central Government initiatives and increase in cost competitiveness as compared to other renewable power sources.

Credit challenges

Profitability exposed to movement in solar cell prices – The profitability indicators remain exposed to volatility and linkage between price movement of solar cells and modules.

Leveraging levels remain high owing to debt funded capex – The company's leveraging level (Total Debt/Total Networth) at a standalone level continues to remain high at 1.89 times for FY2017 and 1.86 times for 9M FY2018 respectively. Furthermore, the debt protection metrics remain moderate with interest coverage ratio of 3.18 times and Total Debt/OPBDITA of 4.72 times for 9M FY2018. In addition, the debt availed in subsidiaries results in higher leveraging at a consolidated level. The gearing level of the company at a consolidated level remains at over 3 times owing to high debt on the books of wholly owned subsidiaries.

Competition from imports – The domestic solar module manufacturing industry faces stiff competition from imports given the price advantage that the latter possess. However, imposition of import duty of 7.5% and proposed safeguard duty (to the extent of conversion costs) is expected to be beneficial for EPPPL.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

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. 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 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. The company has also setup solar power projects in India and Germany through its subsidiaries. In FY2015, the company sold off its domestic subsidiary, Emmvee Energy Pvt Ltd, and closed the operations of its German subsidiary, Emmvee Photovoltaics GmbH.

In FY2017, the company reported a net profit of Rs. 30.50 crore on an operating income(OI) of Rs. 500.48 crore as compared to net profit of 10.87 crore on OI of Rs. 397.71 crore for FY2016.

Key financial indicators (audited)

	FY2016	FY2017	9M FY2018*
Operating Income (Rs. crore)	397.71	500.48	529.35
PAT (Rs. crore)	10.87	30.50	21.78
OPBDIT/ OI (%)	9.22%	13.30%	9.05%
RoCE (%)	15.85%	19.10%	12.23%
Total Debt/ TNW (times)	1.79	1.89	1.86
Total Debt/ OPBDIT (times)	5.37	3.99	4.72
Interest coverage (times)	2.49	3.77	3.18
NWC/ OI (%)	25%	25%	14%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2016	Date & Rating in FY2015	
				April 2018	April 2017	February 2016	January 2015	
1	Fund-based Limits	Long Term	50.00	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	
2	Non-fund Based Limits	Long Term	30.00	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [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 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	Fund-based limits	NA	NA	NA	50.00	[ICRA]BBB+(Positive)/[ICRA]A2
NA	Non-fund Based Limits	NA	NA	NA	30.00	[ICRA]BBB+(Positive)/[ICRA]A2

Source: Emmvee Photovoltaic Power Private Limited

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