

Emmvee Photovoltaic Power Private Limited

April 05, 2019

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	55.00	55.00	[ICRA]BBB+/[ICRA]A2 reaffirmed; outlook revised from Positive to Stable
Non-fund based limits	45.00	45.00	[ICRA]BBB+/[ICRA]A2 reaffirmed; outlook revised from Positive to Stable
Total	100.00	100.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in rating outlook takes into consideration the adverse regulatory development pertaining to solar asset (30 MW) in terms of tariff revision, in turn affecting the asset sale process as well as slower than expected volume growth during the FY 2018-19. Owing to delay in project commissioning by one day, Karnataka Electricity Regulatory Commission (KERC) reduced the applicable tariff rate for the 30 MW capacity from Rs. 6.10 / unit to Rs. 4.36/ and this in turn impacted the progress of the sale of these assets, which was expected to significantly reduce the debt levels at consolidated level. The company has subsequently approached Appellate Tribunal for Electricity (APTEL) against the KERC decision and the issue currently remains sub-judice.

The ratings continue to favourably 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 as well as consolidated level) owing to debt-funded capacity expansion plan undertaken in FY2017 coupled with almost 55 MW capacity installed under multiple subsidiaries. In this context, any further 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 45%) 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, the implementation of the safeguard duty by Ministry of Finance in July 2018 has benefited the company, and has improved the competitiveness of domestic module manufacturers against the imports to some extent.

Outlook: Stable

The 'Stable' outlook reflects ICRA's expectations that EPPPL will continue to benefit from the favourable demand outlook for solar modules, 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. The outlook may be revised to 'Positive' in case of a healthy growth in sales volumes during FY2020 and/or decline in the debt levels at a consolidated level supported by sale of the solar assets.

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.

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 favourable in the long run aided by various State and Central Government initiatives, including recently notified Government Producer scheme by GoI as well as significantly improved cost competitiveness of solar energy as compared to other renewable power sources. The module production level of EPPPL improved significantly FY2018 to 218 MW aided by a healthy order in-flow from external customers as well as EPC requirements for the projects undertaken under wholly owned subsidiaries. However, the production volumes have remained stable at 152 MW for 9M FY2019 owing to the subdued demand from the customers due to the uncertainty regarding the implementation of the safeguard duty during the year.

Credit challenges

Adverse impact on cash flows owing to regulatory issues - The cash accruals for the company at consolidated level has been significantly impacted owing to decline in the tariff rate for 30 MW capacity (out of 40 MW) installed under the wholly owned subsidiaries. Owing to delay in project commissioning by one day, Karnataka Electricity Regulatory Commission (KERC) reduced the applicable tariff rate for the 30 MW capacity from Rs. 6.10 / unit to Rs. 4.36/ unit impacting the overall cash accruals by ~ Rs. 10 crore. The tariff reduction also impacted the progress of the sale of these assets, which was expected to significantly reduce the debt levels at consolidated level. The company has approached Appellate Tribunal for Electricity (APTEL) against the KERC decision and the issue currently remains subjudice. The consolidated cash flows have further got impacted owing to delays in getting the open access approval (although received recently) from Telangana discom for a 15-MW JV between the company and Dr. Reddy's Lab (DRL). While the power plant was generating power, no cash flows were generated since its commissioning, as the entire power was banked owing to the unavailability of open access approval leading to receivables of Rs. 11 crore as on March 2019. The company has, however, recently received the open access approval which will enable it to liquidate the banked power, thereby improving the liquidity position.

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 2 times for FY2018 and for 9M FY2019. Furthermore, the debt protection metrics remain moderate with interest coverage ratio of 1.6 times and Total Debt/OPBDITA of 6.8 times for 9M FY2019. 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, the implementation of the safeguard duty by Ministry of Finance in July 2018 has benefited the company, and has improved the competitiveness of domestic module manufacturers against the imports to some extent.

Liquidity position

The company's liquidity position remains stable with unutilised working capital limits of ~ 12 crore. The drawing power for the company has remained higher than the sanctioned working limits which provides liquidity buffer by allowing the company for any working capital enhancements, if required.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	-
Consolidation/Standalone	Consolidated

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.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	500.5	676.8
PAT (Rs. crore)	30.5	17.4
OPBDIT/OI (%)	13.3%	10.6%
RoCE (%)	19.1%	13.0%
Total Debt/TNW (times)	1.9	2.0
Total Debt/OPBDIT (times)	4.0	4.3
Interest Coverage (times)	3.8	2.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Chronology of Rating History for the past 3 years									
		Current Rating (FY2020)			Date & Rating in FY2019			Date & Rating in FY2018	Date & Rating in FY2016
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating	May 2018	April 2018	April 2017	February 2016	
1	Fund-based Limits	55.00	44.00	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	
2	Non-fund Based Limits	45.00	27.00	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	

*as on Jan 2019

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	55.00	[ICRA]BBB+(Stable)/[ICRA]A2
NA	Non-fund Based Limits	NA	NA	NA	45.00	[ICRA]BBB+(Stable)/[ICRA]A2

Source: Emmvee Photovoltaic Power Private Limited

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