

December 09, 2019

Emmvee Photovoltaic Power Private Limited: Ratings downgraded to [ICRA]BBB-/[ICRA]A3; outlook revised to 'Negative'

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	55.00	55.00	[ICRA]BBB-/ [ICRA]A3; Downgraded from [ICRA]BBB+/ [ICRA]A2; outlook revised from Stable to Negative
Non-fund based limits	45.00	45.00	[ICRA]BBB-/ [ICRA]A3; Downgraded from [ICRA]BBB+/ [ICRA]A2; outlook revised from Stable to Negative
Total	100.00	100.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in ratings takes into consideration the weakening of Emmvee Photovoltaic Power Private Limited's (EPPPL) financial risk profile in FY2019 as evident from its subdued debt coverage metrics and higher dependence on short-term debt to meet working capital requirements. The rating action further takes into consideration the continued uncertainty on the resolution of tariff issue pertaining to the 40 MW solar assets which has resulted in an under recovery (due to tariff of Rs. 4.36/Kwh being received for two projects as opposed to tariff of Rs. 6.10/Kwh as per the power purchase agreement (PPA) and could lead to a cashflow mismatch in the near term. While the company has received a favourable verdict from the Appellate Tribunal for Electricity (APTEL) for receipt of PPA tariffs, the Bangalore Electricity Supply Company Limited (BESCOM) is yet to implement the same. Thus, the timeline of resolution of the same will remain a key rating monitorable. The ratings further remain tempered by the high customer concentration risk in EPPPL's order book, with 86% of the orders from the top three customers.

The ratings, however, continue to favourably factor in the established presence of EPPPL in the solar module manufacturing space with a decade-long operational track record. Long association as well as supply agreements signed with reputed domestic and foreign suppliers for procurement of solar cells results in low raw material supply risks for the company. The ratings also continue to take into consideration the healthy domestic demand outlook for solar module manufacturers from utility scale projects as well as from industrial and commercial consumers, given the tariff competitiveness of solar power as compared to other renewable power sources as well as the focus of government on policy formulation as well as initiatives. ICRA also takes note of the outstanding order book of Rs. 422 crore as of October 2019.

The rating further continues to be constrained by the company's stretched capital structure, owing to debt-funded capacity expansion plans undertaken at standalone level as well as in subsidiaries and joint ventures. Furthermore, the company's operating profitability remains exposed to volatility in price spread between photovoltaic (PV) modules and cells, given that solar cells are imported and constitute a major portion of the company's cost structure. The ratings are also tempered by the stiff competition in the solar module industry especially from imports. Nonetheless, implementation of the safeguard duty by the Ministry of Finance in July 2018 has benefited the company and improved the competitiveness of domestic module manufacturers against the imports to a large extent.

The 'Negative' outlook reflects ICRA's expectations that the financial risk profile of EPPPL is likely to remain subdued owing to high debt levels and working capital requirements.

Key rating drivers:

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 unit was enhanced to 500 MW from 135 MW in FY2017.

Favourable demand outlook for solar power modules – Demand outlook for the solar power sector remains favourable in the long run, aided by various State and Central Government initiatives, which have significantly improved cost competitiveness of solar energy as compared to other renewable sources. Post implementation of the safeguard duty on imports of solar modules, the cost competitiveness of players such as EPPPL has witnessed an improvement as indicated in the increase in order in-flow.

Revenue visibility by virtue of modest order book position – Order book position of the company has grown in the past 12 months post clarity on the safeguard duty. The current order book position (as on October 31, 2019) stands at Rs.422.19 crore for supply of PV modules, providing revenue visibility for the next three quarters given the nature of orders.

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.

Credit challenges

Under recovery in solar power SPVs – The company has been receiving lower tariffs of Rs. 4.36/kwh (as opposed to PPA tariff of Rs. 6.10/kwh) in two projects out of the three solar power projects (30 MW out of 40 MW) that it has invested in, due to a dispute regarding the date of commissioning. Owing to the said dispute, Karnataka Electricity Regulatory Commission (KERC) had reduced the applicable tariff rate for the 30-MW capacity to Rs. 4.36/ Kwh from Rs. 6.10/Kwh, impacting the overall cash accruals. The company had approached the APTEL against the KERC decision and the APTEL in its ruling dated May 8, 2019 pronounced the verdict in favour of the company. Despite this favourable order, BESCO is still releasing payments based on tariff of Rs.4.36 /Kwh and is yet to implement the same.

High customer concentration risk in pending order book position – Top-three customers account for ~86% of the unexecuted order book of the company, indicating customer concentration risk. Any execution delays by the final project developer for the company's EPC customer may impact the company's revenue and profitability.

High leveraging level and moderate coverage indicators due to debt-funded capex – The company's leveraging level (Total Debt/Total Networth) at a consolidated level remains high at 2.3 times for FY2019. Furthermore, the debt protection metrics remained moderate, with interest coverage ratio of 1.5 times and Total Debt/OPBDITA of 7.8 times for 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 3.8 times owing to high debt on the books of wholly owned subsidiaries.

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.

Competition from imports – The domestic solar module manufacturing industry faces competition from imports given the price advantage that the latter possess. However, implementation of the safeguard duty by the Ministry of Finance in July 2018 has benefited the company, and improved the competitiveness of domestic module manufacturers against the imports to a large extent.

Risk of devolvement of warranties on solar modules – The operations remain exposed to risks pertaining to any devolvement of warranties given on supply of solar modules.

Liquidity position: Stretched

EPPPL's liquidity position remains stretched as reflected by high utilisation of sanctioned working capital limits and higher dependence on additional short-term lines for meeting funding requirements. At a standalone level, the company's free cash and bank balance stood at Rs.3.60 crore as on September 30, 2019. Furthermore, the company's cashflows are estimated to remain under pressure, due to sizeable repayment obligations both at standalone and consolidated level.

Rating sensitivities

Positive Triggers: Given the negative outlook, rating upgrade in the near term is unlikely. However, a change in the outlook or an upward movement in the rating could happen in case of [a] favourable outcome with respect to the ongoing tariff issue and subsequent implementation by the off-takers for the 40-MW solar power assets as per which the company would receive payments at Rs.6.1/Kwh as opposed to Rs.4.36/kwh for two projects [b] total debt to EBITDA below 5 times on a sustained basis [c] Interest coverage greater than 2.5 times on a sustained basis and [d] significant scale up in revenue and improvement in profitability.

Negative Triggers: Slowdown in order execution due to [a] any cancellation of existing order(s) affecting revenue and profitability of the company [b] any further debt-funded capital expenditure undertaken by the company or [c] further delays in receipt of receivables outstanding for more than six months

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	-
Consolidation/Standalone	Consolidated The list of companies that are consolidated to arrive at the rating are given in Annexure 2 below.

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 the 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 (Consolidated)

	FY2018 (A)	FY2019 (A)
Operating Income (Rs. crore)	433.4	497.7
PAT (Rs. crore)	6.9	-12.8
OPBDIT/OI (%)	22.5%	19.4%
RoCE (%)	10.4%	6.5%
Total Debt/TNW (times)	3.8	4.5
Total Debt/OPBDIT (times)	6.5	7.4
Interest Coverage (times)	2.1	1.4

Source: EPPPL's audited consolidated financials

Key financial indicators (Standalone)

	FY2018 (A)	FY2019 (A)
Operating Income (Rs. crore)	676.8	433.3
PAT (Rs. crore)	17.4	10.5
OPBDIT/OI (%)	10.6%	11.4%
RoCE (%)	13.0%	7.3%
Total Debt/TNW (times)	2.0	2.3
Total Debt/OPBDIT (times)	4.3	7.8
Interest Coverage (times)	2.8	1.5

Source: EPPPL's audited standalone financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2020)			Chronology of Rating History for the past 3 years											
	Type	Amount	Amount Outstanding* (Rs. crore)	Date & Rating in FY2020		Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2016						
1 Fund - based Limits	Long Term/Short Term	55.00		09-December 2019	[ICRA]BBB- (Negative) / [ICRA]A3	05-April 2019	[ICRA]BBB + (Stable) / [ICRA]A2	07-May 2018	[ICRA]BBB+ (Positive) / [ICRA]A2	02-April 2018	[ICRA]BBB+ (Positive) / [ICRA]A2	24-April 2017	[ICRA]BBB + (Stable) / [ICRA]A2	28-February 2016	[ICRA]BBB + (Stable) / [ICRA]A2
2 Non-fund Base Limits	Long Term/Short Term	45.00			[ICRA]BBB- (Negative) / [ICRA]A3		[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 September 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-(Negative)/[ICRA]A3
NA	Non-fund Based Limits	NA	NA	NA	45.00	[ICRA]BBB-(Negative)/[ICRA]A3

Source: Emmvee Photovoltaic Power Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	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 Solar Private Limited	99.99%	Full Consolidation
ES Energy Private Limited	99.99%	Full Consolidation
ES Sun Power Private Limited	99.93%	Full Consolidation
ES Neptune Solar Private Limited	99.99%	Full Consolidation

Note: The above entities have been consolidated as part of the consolidated financial statements of EPPPL

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Manasa Gopidi
+91 40 40676526
manasa.g@icraindia.com

Abhilash Dash
+91 22 6169 3358
abhilash.dash@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents