Premier Energies Photovoltaic Private Limited

October 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	287.94 (Reduced from 335.00)	CARE A-; Stable	Upgraded from CARE BBB+; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating action on the bank facilities of Premier Energies Photovoltaic Private Limited (PEPPL), which is operating 750 MW of solar cell and 1,400 MW of solar module manufacturing facilities in the state of Telangana, factors in significant improvement in financial performance of the company as reflected by increase in total operating income (TOI) from ~₹ 1,207 crore in FY23 to ~₹ 3,117 crore in FY24 along with improvement in EBITDA margins from ~5.5% in FY23 to ~14.0% in FY24. Further, the operational performance of the company remains satisfactory as reflected by average capacity utilization factor (CUF) of ~92% for cell facilities and ~82% for module facilities during Q1-FY25.

The rating continues to be supported by strong parentage by virtue of PEPPL being a wholly owned subsidiary of Premier Energies Limited (PEL), which has an established market position in the solar cell and module manufacturing industry. PEPPL is strategically important for PEL as a large portion of the current solar cell and module manufacturing capacity of the group is housed under PEPPL. Further, the demand prospects for domestic solar cell and module manufacturers remain buoyant on account of various policy measures and schemes initiated by the Government of India (GoI) like mandatory use of domestic content requirement (DCR) solar modules in solar projects aided by GoI such as PM Surya Ghar Muft Bijli Yojana and PM-KUSUM Yojana along with imposition of basic customs duty (BCD) on imported solar cells and modules and reimposition of approved list of module manufacturers (ALMM) from April 01, 2024. A healthy order book position of the company is a testament of the same. Going forward, CARE Ratings expects the demand prospects for the group to remain strong in the domestic market, given the favourable policy support by the government.

Nevertheless, the ratings are constrained on account of vulnerability of company's profitability to variation in raw material prices as well as foreign exchange rates given the reliance on imports for wafer procurements as well as the intense competition in the solar module manufacturing business. The company is further exposed to the performance risk of modules, however the same is mitigated by provisioning for warranty. The rating is further constrained on account of the leveraged capital structure and interest rate risk, given the debt funded capex for setting up the facility. CARE Ratings also factors in the execution risks pertaining to setting up of additional 1 GW solar cell capacity under PEPPL, which is expected to get commissioned by April 2025 end. The execution progress and ramping up of operations thereafter would be key monitorables from a credit standpoint.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations and sustenance of operating cycle below 90 days along with profitability margins remaining in line with the existing levels
- Faster than expected deleveraging of the company

Negative factors

- Deterioration in financial risk profile as reflected by the operating income significantly lower than expectations, operating margins remaining lower than 8% on a sustained basis and/or weakening of liquidity position
- Any unfavourable change in the competitive landscape adversely impacting the domestic solar cell/module manufacturers
- Weakening of credit profile of the parent, i.e., Premier Energies Limited (PEL), or any change in linkages/support philosophy between the parent and PEPPL would be a negative factor

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Analytical approach: Standalone plus factoring in parent support

CARE Ratings expects PEPPL's parent, PEL, to be willing to extend financial support to PEPPL, should there be a need, given the high strategic importance of PEPPL for PEL.

Outlook: Stable

The stable outlook on the CARE A- rating of PEPPL reflects CARE Ratings opinion the company will continue to operate at envisaged production levels. Further the outlook is supported by the expected robust demand for domestically manufactured solar cells and modules over the near to medium term.

Detailed description of key rating drivers:

Key strengths

Strong parentage and operating track record of Premier group in the solar module business

PEPPL is a wholly owned subsidiary of PEL. PEL is an established player in the solar cell and module manufacturing industry with track record of over 25 years. The company is one of the largest solar cell and module manufacturers in India with 2 GW of solar cell and 4.1 GW of solar module manufacturing capacities at present. In addition to solar cell and module manufacturing, the Premier group also undertakes Engineering, Procurement and Construction (EPC) for solar power plants, which contributes ~10% to total sales.

Strong competitiveness of the domestic module manufacturers vis-à-vis Chinese module manufacturers

The demand prospects for domestic solar cell and module manufacturers remains buoyant on account of various policy measures and schemes initiated by the Government of India (GoI) like mandatory use of domestic content requirement (DCR) solar modules in solar projects aided by GoI such as PM Surya Ghar Muft Bijli Yojana, PM-KUSUM Yojana, etc. As per DCR policy, 40% of the raw material shall be domestically manufactured, which strengthens the competitive position of Premier in the domestic market as it has 2 GW of solar cell manufacturing capacity at present.

Moreover, the imposition of basic customs duty (BCD) of 40% and 25% on imported solar modules and solar cells respectively from April 01, 2022 and reimposition of approved list of module manufacturers (ALMM) from April 01, 2024, is expected to be a key growth driver for the domestic manufacturers by making them cost-competitive compared to Chinese players. Additionally, introduction of production-linked incentive (PLI) scheme to promote backward integrated plants, are also expected to benefit domestic module manufacturers over the medium to long term.

Satisfactory operational and financial performance

The operational performance of the company is satisfactory as the company has gradually ramped up its production and achieved CUF of ~92% for cell facilities and ~82% for module facilities during Q1-FY25. Further, the financial performance of the company has improved significantly on Y-o-Y basis as reflected by increase in total operating income from ~₹ 1,207 crore in FY23 to ~₹ 3,117 crore in FY24 along with improvement in EBITDA margins from ~5.5% in FY23 to ~14.0% in FY24. Going forward, sustenance of operational and financial performance at existing levels will remain critical from credit perspective.

Key weaknesses

Profitability remains exposed to demand risk and fluctuations in raw materials prices

The operating margin of the company is satisfactory as reflected by EBITDA margin of 14.0% in FY24, however, the same remains susceptible to risks of fluctuations in prices of raw material which include polysilicon, wafer, solar cells, aluminium panels, and glass. The key raw materials viz. solar wafer and solar cells which constitute majority of the total raw material cost, has witnessed fluctuations in the past two years. Though PEL and PEPPL undertake order-backed procurement with price indexation to mitigate this risk, any sharp rise in input cost and the company's inability to pass it on to its customers would adversely impact the profitability of the company. CARE Ratings estimates the profitability margins of the company to remain in line with existing levels over the near-to-medium term.

Leveraged capital structure along with exposure to interest rates fluctuations
The capital structure of PEPPL is leveraged on account of debt-funded capex incurred for setting up the manufacturing facilities. The same is reflected by overall gearing of ~2.0x as on FY24 end. Going forward, CARE Ratings expects the overall gearing to remain rangebound between 2.2x to 2.5x over next two years. As the company has to procure solar wafer from international markets, the working capital requirement for the company is expected to remain high and thus the operations are working capital intensive. As a result, the cash flows are expected to remain exposed to interest rate movements as rate of interest on term loans and working capital facilities is floating in nature.

Execution risk for under-implementation project

PEPPL is setting up an additional 1 GW solar cell manufacturing facility with an estimated capex of ~₹ 670 crore which is to be funded in the debt-equity mix of 3:1. The company has tied up long-term debt to meet the debt requirements of the project and promoter contribution is expected to be met through internal cashflows of the company. The additional cell facility is expected to get commissioned by April 2025 end. The execution progress and ramping up of operations thereafter would be key monitorables from a credit standpoint.

Performance risk of modules given the presence of long term warranties

The business remains exposed to risks pertaining to any devolvement of warranties provided on the solar modules. The modules are typically sold with a 10-year warranty for product manufacturing defects and a 25-year warranty relating to output performance. However, the warranty claims have remained very low in the past few years. Furthermore, the Premier group has been making adequate provisions for warranty, thereby mitigating itself from any kind of inadvertent claims that may arise in future.

Liquidity: Adequate

The liquidity position of the company is adequate as the company had free cash and bank balance of ~₹ 150 crore and restricted cash balance of ~₹ 169 crore as on July 2024 end. Going forward, CARE Ratings expects the liquidity position to remain around current levels.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Electrical Equipment	Other Electrical Equipment

PEPPL, incorporated on August 17, 2016, is a wholly owned subsidiary of PEL which is one of the leading players in the Indian solar industry with over 25+ years of experience. PEPPL is engaged in the manufacturing of solar photovoltaic (PV) cells and solar PV modules. The company is operating 750 MW of solar cell manufacturing and 1,400 MW of solar module manufacturing capacity in the state of Telangana.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	1207.4	3117.0
PBILDT	66.3	436.8
PAT	-29.3	252.1
Overall gearing (times)	5.1	2.0
Interest coverage (times)	1.1	5.1

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	June 2033	287.94	CARE A-; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	287.94	CARE A-; Stable	1)CARE BBB+; Stable (02-May-24)	1)CARE BBB+; Stable (26-Dec-23)	-	-

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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