Premier Energies International Private Limited

September 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	525.00	CARE A-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Premier Energies International Private Limited (PEIPL), which is operating 1,250 MW of solar cell and 1,400 MW of solar module manufacturing facilities in the state of Telangana, factors in the strong parentage by virtue of it being a majority owned subsidiary of Premier Energies Limited (PEL), which has an established market position in the solar cell and module manufacturing industry. PEIPL is strategically important for PEL as the majority of the current solar cell manufacturing capacity of the group is housed under PEIPL. The rating is supported by improvement in operational performance of PEIPL as reflected by average capacity utilization factor (CUF) of ~67% for cell facilities and CUF of ~78% for module facilities during Q1-FY25. Moreover, the profitability margins of the company remain satisfactory with operating margins remaining above 20% for FY24.

Further, 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 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.

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 PEIPL would be a negative factor

Analytical approach: Standalone plus factoring in parent support

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

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

Outlook: Stable

The stable outlook on the CARE A- rating of PEIPL 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

PEIPL is a majority owned (74%) 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.

Healthy order book position and diversified customer profile

PEIPL has a healthy order book position as the company has orders for 344 MW of solar cells and 1,055 MW of solar modules, which provides revenue visibility for near-to-medium term. The company has an order book of over ₹ 2400 crore as on March 31, 2024. Currently, the order book of the group has diversified customer base and includes leading independent power producers (IPPs). Most of the current orders of PEIPL are sub-contracted from other group companies. However, going forward, the order book is expected to have direct orders as PEIPL has an enlisted capacity of 1,320 MW under ALMM list dated April 10, 2024.

Satisfactory operational and financial performance

The capacity under PEIPL has a limited track record of operations as the cell and module lines under PEIPL achieved commissioning in October 2023 and December 2023 respectively. However, the operational performance of the company is satisfactory as the company has successfully ramped up its production and achieved CUF of ~67% for cell facilities and CUF of 78% for module facilities during Q1-FY25. Moreover, the profitability margins of the company remain satisfactory with operating margins remaining above 20% for FY24.

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 more than 20% 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 constitutes majority of the total raw material cost, has witnessed fluctuations in the past two years. Though PEL and PEIPL undertakes order-backed procurement with price indexation to mitigate this risk, any sharp rise in input cost and the company's inability to pass it 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 PEIPL is leveraged on account of debt-funded capex incurred for setting up the manufacturing facilities. The same is reflected by overall gearing of 2.7x as on FY24 end. Going forward, CARE Ratings expects the overall gearing to remain rangebound between 1.5x to 2.3x 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.

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.

Technology risk owing to the evolving technology for solar cells and modules

PEIPL is exposed to technology risk since solar cells and modules are subject to technical advancements thereby exposing the products manufactured by the company to risk of obsoletion in terms of technology. Nevertheless, as per the management, the company plans to operate the plant in a modular fashion enabling it to switch from Mono PERC technology to TOPCon technology.

Liquidity: Adequate

The liquidity position of the company is adequate as the company has free cash and bank balance of ~Rs 256 crore and restricted cash balance of ~₹ 48 crore as on July 2024 end. This apart, the company has fund based working capital limits of Rs 57 crore which was ~84% unutilised 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

PEIPL, incorporated on August 18, 2020, is a majority (74%) owned subsidiary of PEL which is one of the leading players in the Indian solar industry with over 25+ years of experience. PEIPL is engaged in the manufacturing of solar photovoltaic (PV) cells and solar PV modules and operates 1.25 GW solar cell and 1.40 GW of solar module manufacturing capacities in the state of Telangana.

Brief Financials (₹ crore)	March 31, 2024 (A)
Total operating income	439.1
PBILDT	104.2
PAT	39.1
Overall gearing (times)	2.7
Interest coverage (times)	4.2

A: Audited UA: Unaudited; 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
Term Loan-Long Term		-	-	September 30, 2033	525.00	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	Term Loan-Long Term	LT	525.00	CARE A-; Stable				

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: NA

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Term Loan-Long Term	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

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Jatin Arya Director **CARE Ratings Limited** Phone: 91-120-4452021 E-mail: Jatin.Arya@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Mayuresh Karavade Assistant Director **CARE Ratings Limited** Phone: 91-226-8374468 E-mail: Mayuresh.karavade@careedge.in Md Rizwan Ahmad Lead Analyst **CARE Ratings Limited** E-mail: Rizwan.Ahmad@careedge.in

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.

For detailed Rationale Report and subscription information,
please visit www.careedge.in