

February 24, 2023

Photon Energy Systems Limited: [ICRA]B- (Stable)/[ICRA] A4 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based - Cash credit	6.00	[ICRA]B- (Stable); assigned
Short term – Non-fund based	19.00	[ICRA]A4; assigned
Total limits rated	25.00	

*Instrument details are provided in Annexure-1

Rationale

For arriving at the ratings, ICRA has considered the consolidated financials of Photon Energy Systems Limited (PESL-the company) and its subsidiaries Photon Rooftop Private Limited (PRPL) and Photon Solar Private Limited (PSPL), collectively referred to as the Photon Group.

The assigned rating is constrained by the company's small scale of operations, the working capital intensive operations due to the elongated receivables and the volatile profit margins in the past. Also, given the single-part nature of the fixed tariff under the PPA, the debt metrics of the project remain sensitive to energy generation, which is dependent on weather conditions and seasonality. ICRA also notes the corporate guarantee extended by PESL to its subsidiary- Photon Solar Power Pvt. Ltd (PSPL) - for the entire term loan and the weak liquidity position of PSPL.

The ratings, however, derive comfort from the extensive experience of the promoters of Photon Energy Systems Limited (PESL), spanning over two decades, in the renewable energy sector. The ratings also factor in the revenue visibility in the subsidiaries, supported by the long-term PPAs.

The Stable outlook reflects ICRA's opinion that PESL's credit profile is expected to remain stable, backed by the extensive experience of the promoters in the industry and the established relationship with customers, which is expected to result in steady business growth, going forward.

Key rating drivers and their description

Credit strengths

Experience of promoters in renewable energy sector- PESL, established in 1995, is involved in the installation and supply of solar modules and subsequent operations & maintenance of the solar power plants. The company also has an operational 1-MW solar power plant in Telangana. The promoters, Mr. Purushotham Reddy Nalamada and Mr. Gautham Kumar Nalamada, have more than two decades of experience in the renewable industry.

Revenue visibility due to long-term PPA – At a consolidated level, the Group has an operational solar power plant capacity of 11.42 MW and under-construction capacity of 2.2 MW, with long-term PPAs with a reputed customer, which a long-term revenue visibility. Moreover, PESL has an unexecuted order book of Rs. 71.0 crore for solar EPC projects, which is to be executed over the next 12-15 months.

Credit challenges

Small scale of operations – PESL’s scale of operations has remained small over the years, though it increased slightly to Rs. 24.8 crore in FY2022 from Rs. 23.7 crore in FY2021 at a consolidated level. The small scale exposes the company to the risk of business downturn and restricts its ability to absorb any temporary disruption and fixed costs.

Working capital intensive operations due to elongated receivables – The Photon Group’s working capital intensity of operations remained high owing to the stretched receivable position. In FY2022, at a Group level, the receivable days stood at ~455 days and the inventory days at 250 days, mainly comprising work in progress. There have been pending dues from Government agencies which will be released upon completion of the respective projects.

Susceptibility of profit margins to volatility in raw material prices – The company’s profitability remains exposed to the fluctuations in raw material (solar modules) prices. It has little control over the prices of key inputs. The company’s margins are exposed to raw material price fluctuations as the fixed-price contracts limits its ability to pass on any upward movement in prices to the customers.

Weak liquidity position of subsidiary- PESL has extended a corporate guarantee for the entire debt availed by its subsidiary- PSPL. As TSSPDCL offtakes the entire quantum of power generated by the asset of PSPL, it remains exposed to the state discom’s credit risk profile. There have been significant delays in payments by the counterparty due to which PSPL’s receivable cycle has stretched to around 250 days, adversely impacting its overall liquidity profile.

Liquidity position: Stretched

PESL’s liquidity is stretched, characterised by tightly matched accruals vis-à-vis repayment obligations with limited free cash and bank balance (Rs. 0.08 crore as on March 31, 2022) and high utilisation of working capital limits in the last 12 months.

Rating sensitivities

Positive factors – ICRA could upgrade PESL’s ratings if there is any substantial growth in revenues along with a sustained improvement in profit margins and working capital intensity, which will improve the liquidity position.

Negative factors – Pressure on PESL’s ratings could arise if there is any deterioration in the working capital cycle, which will impact the company’s liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA approach on consolidation Rating Methodology for Solar Power Producers
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Photon Energy Systems Limited and its subsidiaries Photon Rooftop Private Limited (PRPL) and Photon Solar Private Limited (PSPL).

About the company

Photon Energy Systems Limited (PESL) was established in 1995. PESL is the parent company of the Photon Group which is involved in the installation and supply of solar modules and the subsequent O&M of the solar power plants. The company also has an operational 1-MW solar power plant in Telangana. Photon Rooftops Private Limited (PRPL) is a subsidiary where PESL holds a 99% shareholding. PRPL has two operational solar roof-top projects and an under-construction solar power plant of 2.2 MW. Photon Solar Power Private Limited (PSPL) has two solar power projects of 5 MW each in the Medak district, Telangana.

Key financial indicators (audited)

PESL	Standalone		Consolidated	
	FY2021 (Audited)	FY2022 (Audited)	FY2021 (Audited)	FY2022 (Audited)
Operating income (Rs. crore)	15.3	16.6	23.7	24.8
PAT (Rs. crore)	0.3	0.4	1.6	1.8
OPBDITA/OI (%)	18.03%	12.72%	39.5%	33.3%
PAT/OI (%)	1.96%	2.17%	6.8%	7.4%
Total outside liabilities/Tangible net worth (times)	0.77	0.66	1.65	1.37
Total debt/OPBDIT (times)	5.15	5.66	4.18	4.00
Interest coverage (times)	1.61	1.96	1.93	2.28

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Amount outstanding as on (Rs. crore)	Date & rating in	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				February 24, 2023			
1 Fund-based - Cash credit	Long Term	6.00	-	[ICRA]B- (Stable)	-	-	-
2 Non-fund based - Others	Short Term	19.00	-	[ICRA]A4	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Non-fund based - Others	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund-based - Cash credit	NA	NA	NA	6.00	[ICRA]B- (Stable)
-	Non-fund based - Others	NA	NA	NA	19.00	[ICRA]A4

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis-

Company Name	PESL Ownership	Consolidation Approach
Photon Rooftops Private Limited	99% (rated entity)	Full Consolidation
Photon Solar Power Private Limited	51%	Full Consolidation

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