February 24, 2023

Photon Rooftops Private Limited: [ICRA]B- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based - Term loan	7.07	[ICRA]B- (Stable); assigned
Long term – Unallocated	2.93	[ICRA]B- (Stable); assigned
Total limits rated	**10.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating derives comfort from the extensive experience of the promoters of Photon Rooftops Private Limited, spanning over two decades, in the renewable energy sector. The rating also factors in the revenue visibility supported by the long-term PPA signed for the entire capacity.

The rating, however, is constrained by the company's small scale of operations, the project execution risk associated with the successful commercialisation of the operations within the scheduled timeline and achieving the desired operating parameters. Also, the debt metrics of the project remain sensitive to energy generation which is dependent on weather conditions and seasonality. Further, the project cash flows are susceptible to any adverse movement in interest rates. The ratings are also constrained by its linkages with its parent company- Photon Energy Systems Ltd. (PESL) - rated at [ICRA]B-(Stable)/A4, whose credit profile is relatively weak.

Key rating drivers and their description

Credit strengths

Experience of promoters in renewable energy sector – The Photon Group is involved in the installation and supply of solar modules and the subsequent operations & maintenance of the solar power plants. The Group also has a few operational solar power plants and solar rooftop power plants in Telangana. The PPAs for all the operational power plants have been signed for the entire capacity at a competitive tariff. The promoters, Mr. Purushotham Reddy Nalamada and Mr. Gautham Kumar Nalamada, have more than two decades of experience in the renewable industry.

Low offtake and price risks owing to long-term PPA - The company has two operational solar roof-top projects of a total capacity of 420 KW with a long term PPA of 20-25 years. Also, PRPL has already entered into a 25-year long-term PPA for 2.2 MW with Telangana State Dairy Development Cooperative Federation Ltd (Vijaya Diary). This provides revenue visibility to the company's business and mitigates the pricing risk.

Credit challenges

Project execution risk - The company is in the process of setting up a 2.2-MW solar project for the Vijaya Dairy plant in Telangana. Thus, PRPL remains exposed to risks associated with the timely execution and stabilisation of the plant's operations, as per the expected parameters. As on January 31 2023, the company had incurred ~40% of the total project cost and the expected COD is June 2023 (about 3 months of delay compared to the scheduled COD).

Sensitivity of debt metrics to energy generation - The debt metrics of solar power projects remain sensitive to the PLF level, given the one-part tariff structure under the PPA. Hence, any adverse variation in weather conditions and/or module performance may impact the PLF and consequently the cash flows. The geographic concentration of the asset amplifies the generation risk. PRPL's ability to achieve and maintain the appraised P-90 estimate remains a key factor from a credit perspective.

Exposure to interest rate risk- - The capital structure of the company is leveraged, reflected in the debt-funded capex deployed (project D/E of ~2.3 times) to set up the project. Therefore, the company's debt coverage metrics remain exposed to the interest rate movement, given the fixed tariff under the PPA.

Liquidity position: Stretched

PRPL's liquidity position is expected to remain stretched owing to the under-construction nature of the project and limited liquidity buffer at present. The timely commissioning of the new capacity and the stabilisation of operations post commissioning remain the key milestones for the company.

Rating sensitivities

Positive factors – ICRA could upgrade the rating on the timely commissioning of the project without any major cost overrun and achieving the desired operating parameters along with a satisfactory track record of receivables. Further, the rating could be upgraded if the credit profile of the parent – Photon Energy Systems Limited - improves.

Negative factors – Pressure on the rating could arise if there are significant delays in commissioning the project, leading to cost overrun and impacting the cash flow generation.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach – Implicit Parent or Group Support Rating Methodology for Solar Power Producers
Parent/Group Support	Parent - Photon Energy Systems Limited
Consolidation/Standalone	Standalone

About the company

Photon Rooftop Private Limited (PRPL), incorporated in December 2014, is a subsidiary of Photon Energy Systems Limited (PEPL), with PEPL holding a ~99% stake in PRPL. Photon Rooftops Private Limited (PRPL) has two operational solar rooftop plants with a total operational capacity of 420 KW and an under-construction solar power capacity of 2.2 MW.

Key financial indicators (Audited)

Standalone	FY2021 (Audited)	FY2022 (Audited)
Operating income (Rs. crore)	0.17	0.31
PAT (Rs. crore)	-0.08	0.15
OPBDITA/OI (%)	59.83%	59.94%
PAT/OI (%)	-44.43%	48.16%
Total outside liabilities/Tangible net worth (times)	-14.76	3.62
Total debt/OPBDIT (times)	-	-
Interest coverage (times)	-	-

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	**Long term – Fund based-Term Loan**	Long Term	7.07	7.07	[ICRA]B- (Stable)	-	-	-
2	**Long term – Unallocated**	Long Term	2.93	-	[ICRA]B- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Unallocated	Not Applicable

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 – Term Loan**	Dec 2022	NA	Dec 2038	7.07	[ICRA]B- (Stable);
-	**Unallocated**	NA	NA	NA	2.93	[ICRA]B- (Stable);

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

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

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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.

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