

Gemco Energy Limited: Assigned

Facilities	Amount (Rs. Crore)	Rating/Outlook
Cash Credit	10.40	SMERA BBB-/Stable (Assigned)
Term Loan	4.60	SMERA BBB-/Stable (Assigned)

SMERA has assigned long term rating of **SMERA BBB- (read as SMERA triple B minus)** to the Rs.15.00 crore long term bank facilities of Gemco Energy Limited (GEL). The outlook is '**Stable**'. The rating is supported by the healthy financial risk profile and the Power Purchase Agreements (PPAs) with Uttar Haryana Bijli Vitaran Nigam Limited (UHBVNL) and Dakshin Haryana Bijli Vitaran Nigam Limited (DHBVNL). The rating is however constrained by the short track record of operations and moderate risk profile of UHBVNL and DHBVNL.

The rating draws comfort from the PPAs between GEL and Haryana Power Purchase Centre (HPPC) for a tenure of 20 years and total offtake of 8 MW. The rating is also strengthened by the healthy debt-equity ratio that improved drastically from 0.78 times in FY2015 to 0.48 times in FY2016. Further, the total outside liabilities to total net worth improved from 0.81 times in FY2015 to 0.49 times in FY2016. The improvement in financial leverage is on account of a prepayment of Rs.2.04 crore term loan in FY2016 along with capital infusion of Rs.2.11 crore in the same year. Alongside the healthy capital structure, GEL also reported healthy coverage indicators wherein the interest coverage ratio improved from 1.19 times in FY2015 to 2.52 times in FY2016. The Debt Service Coverage Ratio also improved from 0.57 times in FY2015 to 1.43 times in FY2016.

The ratings also factor in the healthy operation margins over the last three years – which improved from 23.98 per cent in FY2015 to 25.22 per cent in FY2016. The Net Cash Accrual (NCA) margin also increased from 3.79 per cent in FY2015 to 15.24 per cent in FY2016. Subsequently, on account of a significant increase in PPA tariffs, the Fixed Asset Turnover increased from 0.28 times in FY2015 to 0.68 times in FY2016. The rating is further supported by the periodic infusion of capital by promoters and their 25 years of experience in the industry in addition to their strong technical prowess.

The rating is however, constrained by the moderate risk profile of UHBVNL and DHBVNL – which exposes GEL to significant liquidity risks on account of adverse elongation in the cash conversion cycle. The rating is also constrained by the short track record of profitable operations wherein GEL reported net losses upto FY2015.

Outlook- Stable

SMERA believes that GEL will maintain a stable outlook in the medium term on account of low off take risk and healthy financial risk profile of the company. The outlook may be revised to 'Positive' on account of significant increase in the scale of operations while maintaining healthy profitability indicators. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in the financial risk profile and unfavourable changes in the PPA.

Rating Sensitivity Factors

- Increase in the overall scale of operations
- Deterioration in operating margins
- Unfavourable changes in the PPA

Criteria applied to arrive at the rating:

- Manufacturing Entities

About the Company

GEL was incorporated in 2010 and commenced commercial operations in August, 2013. The company operates an 8 Mega Watt (MW) biomass-power plant in Bhiwani, Haryana. It has obtained regulatory clearances and approvals for a second unit of 7 Mega Watt (MW) at the same site for which the land and infrastructure set up has already been created.

In FY2016, GEL reported net operating income of Rs.25.30 crore and Profit After Tax (PAT) of Rs.0.04 crore against an operating income of Rs.11.10 crore and net loss of Rs.4.36 crore in FY2015. The Net Cash Accruals, however, increased from Rs.0.42 crore in FY2015 to Rs.3.86 crore in FY2016.

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ABOUT SMERA

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