

Press Release

Rajpet Energy LLP

July 26, 2019

Rating Upgraded



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|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs. 5.70 Cr. |
| Long Term Rating | ACUITE B+ / Outlook: Stable (Upgraded) |

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE B**' (read as **ACUITE B**) on the Rs.5.70 crore bank facilities of RAJPET ENERGY LLP (REL). The outlook is '**Stable**'.

Upgrade in rating reflects stabilisation of operations and Long term power purchase agreements (PPA) with the DISCOMS. However, rating remained to be constrained by modest scale of operations and stretch in its working capital cycle.

Rajpet Energy LLP was incorporated as a Limited Liability Partnership in June, 2016 by Mr. Prasad Reddy Kambam and family. The firm is running 1.1 MW solar power plant at Kolar, Karnataka. The firm has PPA agreement with Bangalore Electricity Supply Company Limited (BESCL). The PPA tenure is 25 years. It is a part of RR group

Other group entity is Raygen Power Private Limited (RPPL), which was incorporated in August 2015 by Mr. Prasad Reddy Kambam and Ms. Spoorthi Kambam. The company runs a 3.3 MW solar power plant at Kolar district, Karnataka. RPPL has entered into a long-term PPA with Chamundeshwari Electricity Supply Corporation Limited (CESCL), Mysore. The PPA tenure is 25 years.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Raygen Power Private Limited and Rajpet Energy LLP due to common management, similar line of business and financial synergies among them. Now both the entities together referred as RR group.

Key Rating Drivers

Strengths

• Experienced management

The group is promoted by Mr. Prasad Reddy and family who possess more than five years of experience in the renewable energy sector. The management in the past executed three solar power projects aggregating to 18.5 MW. The RR group has signed PPA agreements with Chamundeshwari Electricity Supply Corporation Limited (CESCL) and Bangalore Electricity Supply Company Limited (BESCL) for the entire capacity at a rate of Rs.8.40/- per kilo Watt per Hour. Acuité believes that long-term PPA is expected to support in maintaining its business risk profile over the medium term.

• Moderate financial risk profile

Financial risk profile of the group is moderate marked by moderate gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and debt protection metrics. The gearing (debt-to-equity) and TOL/TNW are moderate at 1.29 and 1.46 times as on 31 March, 2019 (Provisional) as against 1.89 and 2.02 times as on 31 March, 2018. Net worth stood at Rs.11.22 crore as on 31 March, 2019 (Provisional) as against Rs.8.89 crore as on 31 March, 2018. Of the total debt of Rs.14.47 crore on 31 March, 2019, long term debt constitutes Rs.13.09 crore and unsecured loans of Rs.1.38 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 3.64 times and 0.22 times in FY2019 (Provisional) as against 2.97 times and 0.17 times in FY2018. The group reported net cash accruals (NCA) of Rs.3.16 crore in FY2019 (Provisional) as against Rs.2.86 crore in FY2018. Cash accruals are expected in the range of Rs.3.2-3.4 crore,

against the debt repayment obligations of Rs.2.6 crore. Acuite believes that with moderate accruals and in the absence of major debt funded capital expenditure, financial risk profile is expected to be moderate over the medium term.

Weaknesses

• Cash flow management

As per the PPA terms, the tariff agreed is Rs.8.40 per unit; however, the company / group is paid at Rs.6.44 per unit owing to delay in commencement of operations; this resulted in mismatch in its cash flow, though the same is supported by regular infusion of funds by way of unsecured loans (USL) by promoters. As a result of differential tariff, receivables have gone up from Rs.0.33 crores in FY2017 to Rs.2.45 crores in FY2018 and Rs.4.23 crore in FY2019 (Provisional). Ability of the group in early resolving the issue with DISCOMS quickly for original rate would be the key rating sensitivity factor over the medium term.

• Dependence on climatic conditions

The performance of the solar plant is highly dependent on favorable climatic conditions including the solar radiation levels which have direct impact on the plant load factor (PLF). PLF of RPPL stood at 19.40 percent in FY2019 as against 18.76 percent in FY2018. PLF for REL stood at 19.63 percent in FY2019 as against 18.79 percent in FY2018. Acuite believes that sustenance of PLF levels are key critical element in maintaining the business risk profile.

• Exposure to regulatory risk

The group is exposed to regulatory risk as it is associated with the State Electricity Board. Any revision of tariff as contemplated by few State Governments in the recent past would be key rating sensitivity factor.

Liquidity Position:

Liquidity of the group is stretched marked by moderate cash accruals to repayment obligations and increasing receivables. The group reported net cash accruals (NCA) of Rs.3.16 crore in FY2019 (Provisional) as against Rs.2.86 crore in FY2018. Cash accruals are expected in the range of Rs.3.4-3.6 crore, against the debt repayment obligations of Rs.2.6 crore. Current ratio stood moderate at 1.40 times in FY2019 (Provisional) as against 1.24 times in FY2018. The group is maintaining one quarter DSRA of principal and interest repayment with bank. Acuite believes that the liquidity is expected to be stretched owing to stretch in debtors over the medium term.

Outlook: Stable

Acuite believes that RR group will maintain a 'Stable' outlook on account of the low off take risk arising due to the enforcement of the Power Purchase Agreements (PPA) and extensive experience of the management in the renewable power sector. The outlook may be revised to 'Positive' in case of higher than expected PLF leading to higher cash accruals and resolving the issue with DISCOMS at original tariff rate. Conversely, the outlook may be revised to 'Negative' in case of any significant drop in power generation levels, or any significant delay in receivables or any unplanned debt funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials (Consolidation)

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 6.08 | 0.33 | - |
| EBITDA | Rs. Cr. | 5.05 | 0.12 | -0.00 |
| PAT | Rs. Cr. | 1.91 | -0.01 | -0.00 |
| EBITDA Margin | (%) | 83.10 | 35.56 | - |
| PAT Margin | (%) | 31.40 | -3.21 | - |
| ROCE | (%) | 16.54 | 0.78 | -7.58 |
| Total Debt/Tangible Net Worth | Times | 1.89 | 2.50 | - |
| PBDIT/Interest | Times | 2.97 | 1.44 | - |
| Total Debt/PBDIT | Times | 3.30 | 116.62 | - |

| | | | | |
|-----------------------------|------|-----|-----|---|
| Gross Current Assets (Days) | Days | 171 | 427 | - |
|-----------------------------|------|-----|-----|---|

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

"Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups"

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation of companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|------------------|-------------------------------------|
| 16-Apr-2019 | Term Loan | Long Term | 3.60 | ACUITE B Issuer not co-operating |
| | Proposed | Long Term | 2.10 | ACUITE B Issuer not co-operating |
| 24-Feb-2018 | Term Loan | Long Term | 3.60 | ACUITE B/Stable (Downgraded) |
| | Proposed | Long Term | 2.10 | ACUITE B/Stable (Downgraded) |
| 07-Dec-2016 | Term Loan | Long Term | 5.50 | ACUITE B+/Stable (Assigned) |
| | Proposed | Long Term | 0.05 | ACUITE B+/Stable (Assigned) |
| | Bank Guarantee | Short Term | 0.15 | ACUITE A4 (Assigned) |

*Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|----------------------------------|
| Term loans | Not Applicable | Not Applicable | Not Applicable | 3.60 | ACUITE B+ / Stable (Upgraded) |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 2.10 | ACUITE B+ / Stable (Upgraded) |

Contacts

| Analytical | Rating Desk |
|--|---|
| Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in | Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in |

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|--|--|
| <p>Naveen Papisetty Analyst - Rating Operations Tel: 040-40055480 naveen.papisetty@acuite ratings.in</p> | |
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About Acuité Ratings & Research:

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