

Press Release

Raygen Power Private Limited (RPPL)

29 January, 2018



Rating Downgraded

Total Bank Facilities Rated	Rs.15.00 crore
Long Term Rating	SMERA B/ Outlook Stable (Downgraded)

Rating Rationale

SMERA has downgraded the long term rating of '**SMERA B+** (read as **SMERA B Plus**) on the Rs. 15.00 crore bank facilities of Raygen Power Private Limited to '**SMERA B** (read as **SMERA B**). The outlook is '**Stable**'.

Raygen Power Private Limited was incorporated in August, 2015 by Mr. Prasad Reddy Kambam and Ms. Spoorthi Kambam. The company runs a solar power plant at Kolar district, Karnataka. There has been a delay in the implementation of the solar power plant with consequent reduction in the power tariff, which impacted the financial/repayment capability of the company. The sister concern of RPPL, namely Rajpett Energy LLP has also set up a solar power plant of 1.1 MW at Kolar, Karnataka.

Strengths

Experienced management

The management of both the entities have in the past executed three solar power projects aggregating 18.5 MW and have are engaged in the setting up of solar power facilities for the last 15 years.

Low offtake risk due to Power Purchase Agreement (PPA)

RPPL and REL have both entered into a 25 year PPA at a fixed tariff of Rs. 6.51 crore per unit (kWh). This substantially mitigates any offtake risk associated with the projects. Further, the PPA is also secured by an irrevocable revolving LC opened by the Transco/Discom in favour of the company.

Presence of a Debt Service Reserve Account (DSRA) and Escrow Mechanism

The bank facilities are backed by a Debt Service Reserve Account (DSRA) in the form of a fixed deposit, equivalent to one quarter's interest and principal for servicing the debt obligation.

In addition, the bank facilities are supported by an escrow account through which all receipts from the Discoms shall be routed to an Escrow Account. The order regarding the manner in which funds shall be utilised has been clearly laid down. Further, surplus funds can be withdrawn only if a DSCR of 1.2 times is maintained based on the previous year's audited balance sheet.

Weaknesses

Exposure to regulatory risks

The company is exposed to risks associated with changes in government regulations. Currently, all State distribution companies (discoms) are required to procure a minimum of 15 per cent power from renewable sources. In case of changes in norms or decline in price of solar power in the state, the counterparties may choose to withdraw from the PPA. Further, other regulatory and political changes, including stability of the government will continue to remain key rating sensitivities.

Downward revision of tariff

The debt servicing ability of the entities is subject to the timely completion of the projects. Project delay resulted in revision of tariff rates from Rs. 8.40 to Rs.6.10 per unit thereby affected the entities' ability to service its debt obligations.

Modest Scale of Operations

The overall scale of operations of the RR group is expected to remain modest on account of the following factors:

- i. No scope of capacity expansion
- ii. Low Plant Load Factor of 18-20%.
- iii. No price escalation clause in the PPA.

Rating Sensitivity

- Enforcement of the PPA
- Adherence to the Waterfall Mechanism
- Infusion of promoter's fund to service debt obligation.

Analytical approach:

SMERA has consolidated the risk profiles of Raygen Power Private Limited and Rajpet Energy LLP due to significant business and financial synergies.

Outlook - Stable

SMERA believes that RPPL will maintain a Stable outlook on account of the low offtake risk arising out of the Power Purchase Agreements and the waterfall mechanism. The outlook may be revised to 'Positive' in case of higher than expected infusion of funds by promoters along with substantial decline in operating costs. Conversely, the outlook may be revised to 'Negative' in case of delay in revenue from PPA party and significant increase in gearing.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual) *	FY15 (Actual)
Operating Income	Rs. Cr.	0.33	0.00	NA
EBITDA	Rs. Cr.	0.12	0.00	NA
PAT	Rs. Cr.	(0.01)	0.00	NA
EBITDA Margin	(%)	35.56	NA	NA

PAT Margin	(%)	(3.21)	NA	NA
ROCE	(%)	0.78	(7.58)	NA
Total Debt/Tangible Net Worth	Times	2.50	0.00	NA
PBDIT/Interest	Times	1.44	NA	NA
Total Debt/PBDIT	Times	116.12	NA	NA

*Company incorporated in August, 2015

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

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

None

Rating History (Upto last three years)

Not Applicable

Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA B/ Stable

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ABOUT SMERA

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