

Press Release

Red Earth Green Energy Private Limited

June 27, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 5.36 Cr.
Long Term Rating	SMERA B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B**' (read as **SMERA B**) on the Rs. 5.36 crore bank facilities of Red Earth Green Energy Private Limited. The outlook is '**Stable**'.

Red Earth Green Energy Private Limited (REGEPL), a Karnataka-based SPV (Special Purpose Vehicle) is engaged in power generation (solar project) at Belagavi district, Karnataka. The company was promoted by Ms Hemavathi Chikkanarayanappa, Ms Puttanna Jayalakshmi, Mr Shylaja Gopal, and Mr. Parakash Bhimarao Sindagi. The project commissioned on 27 March, 2017 has capacity of 1 MW. The company entered into a 25 year PPA (Power Purchasing Agreement) with HESCOM (Hubli Electricity Supply Company Limited), Karnataka at Rs.8.40 per unit for the next 25 years.

Key Rating Drivers

Strengths

- **Stable revenue visibility**

The company's tie up with HESCOM is expected to offer a healthy revenue visibility. The project was commissioned on 27 March, 2017 and generated 161 MWH (161000 units) of power till April, 2017 which helped generate revenue of Rs. 0.13 crore (provisional). The PLF (plant load factor) is around 19 per cent.

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 for REGEPL.

- **Modest scale of operations**

The overall scale of operations is modest with revenue of Rs 0.13 crore for April 2017. The Plant Load Factor is expected to decline by 0.5 per cent every year and no price escalation clause has been included in the PPA.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profiles of REGEPL.

Outlook: Stable

SMERA believes that REGEPL will maintain a stable outlook in the medium term owing to its experienced promoters and PPA agreement with HESCOM. The outlook may be revised to 'Positive' if

the company achieves the projected revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving envisaged revenues, profitability or timely payments from HESCOM.

About the Rated Entity - Key Financials

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

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. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	30-Jun-2032	5.36	SMERA B / Stable

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