

Press Release

RED EARTH GREEN ENERGY PRIVATE LIMITED

June 07, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs.5.36 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable (Downgraded from ACUITE B/Stable)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long-term rating to '**ACUITE B-' (read as ACUITE B minus)** from '**ACUITE B' (read as ACUITE B)** to the Rs.5.36 crore bank facilities of Red earth Green Energy Private Limited (RGPL). The outlook is '**Stable**'.

The rating downgrade reflects significant stretch in liquidity and accruals to repayment obligations. RGPL's receivable days have inflated owing to dispute in the tariff initially entered in the power purchase agreement (PPA). The difference between the agreed and revised tariff is yet to be resolved and is currently under litigation. Moreover, Hubli Electricity Supplying Company Limited (HESCOM) is also irregular in making payments and also have not served the penal interest charged which has also affected the accruals. Its accruals are estimated at Rs.0.48 crore in FY2019 (Provisional) against repayment obligations of Rs.0.72 crore. However, the ratings favorably factors in the experienced promoters in the solar industry. The rating also takes into account the moderate Plant Load Factor (PLF) at about 18.44 per cent and stabilization of its operations and long-term power purchasing agreement (PPA) with Hubli Electricity Supplying Company Limited (HESCOM) for a period of 25 years.

Red Earth Green Energy Private Limited was established in the year 2016 as a Karnataka based company formed as an SPV (Special Purpose Vehicle) for developing a solar project in Athani, Belagavi District, Karnataka with capacity of 1.1 MW. It is engaged in the generation of power. The project has commissioned on 27 March 2017. The company has entered into a PPA for 25 years with Hubli Electricity Supply Company Limited (HESCOM) in June 2016.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of RGPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Assured offtake risk**

RGPL has signed a PPA with HESCOM for the entire capacity for the next 25 years. This substantially mitigates any off-take risk associated with the project. Further, the PPA is also secured by an irrevocable revolving LC opened by HESCOM in favor of RGPL. HESCOM shall make the payment within 5th day of the immediately succeeding month (the due date) from the date of receipt of Invoice. Any delayed payment beyond sixty days shall attract penal interest of 1 percent. The company commenced operations in March 2017. However going forward, the credit risk profile of the sole off-taker for RGPL i.e. HESCOM will be a key rating sensitivity factor.

Weaknesses

- **Single-asset nature of operations; cash flows remain vulnerable to variability in solar irradiation**

RGPL is entirely dependent on power generation from the solar power project for its revenues and cash accruals. Given the single-part nature of the tariff, the company may lose revenues and profits in case of non-generation of power. The single-location and single-asset nature of its operations pose a revenue risk. Further, plant load factor (PLF) also has a bearing on the revenues. The average PLF

was low at 18.20 per cent in their first year of operations in FY'2018; however, it improved to about 18.44 per cent in FY2019. Acuite believes that RGPL's revenues and cash accruals continue to be susceptible to the solar irradiation and PLF.

• Counterparty-credit risk associated with HESCOM

The company is exposed to the counter-party credit risk of HESCOM, which is the sole-off taker. RGPL's revenues and cash flows are at risk of off-take, though the company has been supplying power to HESCOM since commencement of commercial operations and experienced management in Solar sector are expected to mitigate the off take risk. The company has entered into PPA with HESCOM in June 2015. However, due to delays in completion of the project, the tariff was reduced. The company has filed a petition against HESCOM with Karnataka High Court to the initial tariff rate which is pending for disposal.

Liquidity

Liquidity of RGPL is weak marked by low cash accruals vis-à-vis repayment obligations. RGPL has reported cash accruals of Rs.0.55 crore in FY2018. Its expected cash accruals are in the range of Rs.0.11-0.20 crore over the medium term against which its repayment obligations are about Rs.0.72 crore. Further, due to difference in tariff rates the receivable days get stretched affecting the liquidity. Acuite believes that stretch in the receivable days and negative net worth is expected to constrain the liquidity.

Outlook: Stable

Acuite believes that RGPL will maintain a stable outlook in the medium term owing to its experienced promoters and long term PPA agreement with HESCOM. The outlook may be revised to 'Positive' if the company achieves the projected revenue and improvement in liquidity. 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

	Unit	FY18 (Actual)	FY17* (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	1.40	-	-
EBITDA	Rs. Cr.	1.36	(0.01)	-
PAT	Rs. Cr.	(1.13)	(0.01)	-
EBITDA Margin	(%)	96.87	-	-
PAT Margin	(%)	(80.78)	-	-
ROCE	(%)	(3.71)	(0.19)	-
Total Debt/Tangible Net Worth	Times	(34.13)	9.79	-
PBDIT/Interest	Times	1.90	(12.96)	-
Total Debt/PBDIT	Times	6.34	(968.74)	-
Gross Current Assets (Days)	Days	166	-	-

*Operations commenced from March, 2017.

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
24-Aug-2018	Term Loans	Long Term	5.36	ACUITE B (Indicative)
27-June-2017	Term Loans	Long Term	5.36	ACUITE B/Stable (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	5.28	ACUITE B-/Stable (Downgraded)
Term Loans	Not Applicable	Not Applicable	Not Applicable	0.08	ACUITE B-/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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