

Press Release

Lineage Power Private Limited

02 January, 2018

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 80.00 Cr. (Enhanced from Rs 65.00 crore)
Long Term Rating	ACUITE BBB+/Stable (Reaffirmed)
Short Term Rating	ACUITE A2 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long term rating of '**ACUITE BBB+**' (**read as ACUITE triple B plus**) and short term rating of '**ACUITE A2**' (**read as ACUITE A two**) to Rs.65.00 crore bank facilities. Further, Acuité has also assigned short term rating of '**ACUITE A2**' (**read as ACUITE A two**) to Rs.15.00 crore bank facilities of Lineage Power Private Limited (LPPL). The outlook is '**Stable**'.

Incorporated in 2010 and later acquired by Pace Group in 2014, LPPL is a part of the Bangalore based Pace Group. The company is headed by Mr. Venugopal Rao. LPPL is engaged in manufacturing, supply and installation of DC power equipment for telecom towers.

Analytical Approach:

Acuité has combined the business and financial risk profiles of Pace Power Systems Private Limited (PPSPL) and its subsidiaries, Pace Renewable Energies Private Limited (PREPL) and Lineage Power Private Limited (LPPL). This is because all the three companies, together referred to as the Pace group, are in similar line of business and share a common management. Extent of consolidation: Full

PPSPL, being the flagship company of Pace Group, holds 93.87 percent of shares in PREPL and 79.73 percent of shares in LPPL. All the three are in the same line of business catering to telecom sector and power sector.

Key Rating Drivers:

Strength

Experienced management and long track record of operations

The group has been incorporated in 2007, thus has completed a long track record of a decade of operations. The promoter, Mr. Venugopal Rao has more than 20 years of experience in the telecom sector and is supported by a team of professionals. The promoter has diversified into related businesses through PREPL and PPSPL. PREPL is engaged in installation of renewable energy equipment, mainly solar equipment, for telecom towers; whereas PPSPL is engaged in supplying, installing and maintaining AC power equipment for telecom towers and also undertakes O&M of Telecom Towers and Electrical Project Installation work.

Healthy financial risk profile

The financial risk profile of the group is marked by strong net worth base, comfortable gearing and healthy debt protection metrics. The net worth of the group stood at healthy levels at Rs.198.58 crore as on 31 March, 2018 as against Rs.174.16 crore as on 31 March, 2018. Gearing (Debt equity) improved and stood comfortable at 0.42 times in FY 2018 as against 0.62 times in FY 2017. Total debt of Rs.83.77 crore as on 31 March, 2018 consist of working capital facilities of Rs.73.73 crore and Rs.10.04 crore of term loan. The interest coverage ratio and DSCR stood healthy at 4.07 times and 2.32

times in FY 2018 as against 3.02 times and 1.78 times in FY 2017. Moreover, NCA/TD stood healthy at 0.40 times in FY2018 as against 0.27 times in FY 2017.

Going forward, Acuité expects marginal deterioration in the debt equity ratio with the expected capex of ~ Rs.150 crore to be undertaken for executing the recent orders from Bharat Sanchar Nigam Limited (BSNL). The proposed capex would be funded through term loan of Rs 113 crore and balance through internal accruals.

Healthy revenue and healthy order book position

The consolidated revenue of the group is healthy at Rs.629.10 crore in FY2018 increased from Rs.499.05 crore in FY2017 thereby registering a year on year growth of 26.06 percent. The rise in sales is on account of improvement in the performance of LPPL which clocked Rs.273.20 crore in FY 2018 as against Rs.110.24 crore in FY 2017. Through LPPL, the company is majorly executing orders for the operation of telecom towers in the export market of South East Asia. The group has clocked revenue of Rs.293.31 crore till September, 2018 (Provisional) and currently has healthy order book position of Rs.572 crore expected to be executed in the next 12 to 15 months.

Further, PPSPL has received an order of Rs.7823 crore in August 2018 from BSNL. Going forward, with the new order from BSNL, Acuité expects significant improvement in the scale of operations of the group and profitability considering the wider scope of work where PPSPL will be responsible for the overall maintenance of the telecom sites including energy management and power back up supply. In addition, PPSPL would be responsible for sales and marketing activities of the towers and bring out new tenancies from other operators.

Reputed clientele

The group has reputed clientele such as Vodafone Essar Spacetel Limited, BSNL, Reliance Jio Infocom Limited, ATC Telecom Infrastructure Limited, Indus Towers Limited, Apollo Towers Myanmar Limited (Myanmar) in the telecom sector and Madhyanchal Vidyut Vitran Nigam Limited, South Bihar Distribution Company, Jharkhand Bijli Vitran Nigam Limited in the rural electrification sector. The telecom sector contributes to around 60 to 70 per cent of the revenues of the group and the balance is from electrification projects.

Weaknesses

Working capital Intensive nature of operations

The operations of the group are working capital intensive with Gross Current Asset (GCA) of 317 days as on 31 March, 2018 as against 322 days in the previous year. The high GCA days are primarily on account of stretched debtor days of 249 days in FY 2018 as compared to 230 days in FY 2017. The high debtor days are due to ~ 35 percent of revenue being generated from power distribution companies (discoms) where payments are generally delayed due to procedural hazards. The group on an average has utilised around 65-70 percent of its bank limit utilisation in the last 6 months.

Foreign currency fluctuation risk

The group is exposed to foreign currency fluctuation risk with nearly 25 percent of the consolidated revenue is being derived from export markets supply and installation of DC power equipment.

Liquidity

The group has healthy liquidity profile marked by net cash accruals of ~ Rs 33.80 crore during FY 2018 crore against Rs 4.40 crore of debt obligations during the same period. The operations are working capital intensive marked by gross current asset (GCA) days of 317 in FY 2018. This has led to moderate reliance on working capital borrowings, the cash credit limit in the group remains utilised at 65-70 percent during the last 6 months. The current ratio of the group stands at 1.30 times as on March 31, 2018.

Outlook: Stable

Acuité believes that Pace Group will maintain 'Stable' outlook over the medium term from its experienced management and healthy order book position. The outlook may be revised to 'Positive' in case the group registers a substantial increase in its scale of operations and profit margins, while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve the projected scalability in revenues or in case of deterioration in the company's financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	629.10	499.05	617.90
EBITDA	Rs. Cr.	53.27	45.26	55.52
PAT	Rs. Cr.	24.24	18.40	27.02
EBITDA Margin	(%)	8.47	9.07	8.98
PAT Margin	(%)	3.85	3.69	4.37
ROCE	(%)	16.05	14.68	21.35
Total Debt/Tangible Net Worth	Times	0.42	0.61	0.77
PBDIT/Interest	Times	4.07	3.02	4.11
Total Debt/PBDIT	Times	1.50	2.05	1.86
Gross Current Assets (Days)	Days	317	322	261

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>
- Service Entities - <https://www.acuite.in/criteria-service.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.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 Instruments /Facilities	Term	Amount	Ratings/Outlook
21-Nov- 2017	Cash Credit	Long Term	45.00	ACUITE BBB+/Stable (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A2 (Assigned)
	Proposed Bank Guarantee	Short Term	10.00	ACUITE A2 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE BBB+/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2 (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2 (Reaffirmed)
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A2 (Assigned)

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About Acuité Ratings & Research:

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