Press Release

LINEAGE POWER PRIVATE LIMITED

March 13, 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.100.00 Cr. (Enhanced from Rs.80.00 Cr)
Long Term Rating	ACUITE BBB+ / Outlook: Negative (Outlook Revised from 'Stable')
Short Term Rating	ACUITE A2 (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed its 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 the Rs.100.00 Cr bank facilities of LINEAGE POWER PRIVATE LIMITED. The outlook has been revised to **'Negative'** from **'Stable'**.

Incorporated in 2010 and later acquired by PPSPL in 2014 LPPL is a 79.73-per-cent subsidiary of PPSPL. LPPL manufactures, supply and installs DC power equipment for telecom towers. The company was acquired by pace group in 2014 from General Electric.

Revision of Outlook: Negative

The revision in outlook is on account of deterioration in the group's operating performance FY2019 and Acuité's expectation of continued deterioration in operating performance over the medium term on account of downturn in the telecom sector. The company reported revenues of Rs.593.12 crore for FY 2019 as against Acuité's expectations of Rs.720-750 crore. The operating margins stood at 8.18 percent in FY2019 which is lower than Acuité's earlier expectations in the range of 10-11 per cent. At the same time the working capital intensity continues to remain high as reflected by GCA days of around 357 days in FY2019. The deterioration in the operating performance coupled with high working capital intensity is likely to impact the financial risk profile of the company over the medium term.

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). Together they are referred to as the Pace Group considering their common line of business and common management. Extent of Consolidation: Full

Pace Power Systems Private Limited being the flagship company of Pace Group holds 93.87 percent of shares in Pace Renewable Energies Private Limited and 79.73 percent of shares in Lineage Power Private Limited. All the three are in the same line of business catering to the telecom and power sectors.

Key Rating Drivers

Strengths

- **Extensively experienced management**

  The company was incorporated in 2007, and thus has established a long track record of more than a decade of operations. The promoter, Mr. Venugopal Rao has more than 20 years of experience in the telecom sector and is supported by an experienced team of professionals. The promoter has diversified into related businesses through PREPL and LPPL. PREPL is engaged in installation of renewable energy equipment, mainly solar equipment, for telecom towers; whereas LPPL is engaged in manufacturing, supply and installation of DC power equipment for telecom towers. The extensive experience has helped them maintain business liaisons with customers like Reliance Jio Infocom Limited, Indus Towers Limited, ATC Telecom Infrastructure Limited, Apollo Towers Myanmar Limited (Myanmar), etc. 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 Group is moving towards diversifying their business line by taking orders of civil construction and other digital projects to maintain the topline and margins. However, the pace of the project has remained tepid. Acuité believes the group is expected to benefit out of the extensive experience and prudence of doing business of the promoters.

- **Moderate financial risk profile**

  Pace Group has a moderate financial risk profile marked by moderate tangible networth, healthy gearing however constrained by moderate coverage indicators. The gearing of the Group has slightly deteriorated but stood healthy at 0.67 times as on March 31, 2019 against 0.42 times as on March 31, 2018. Gearing is expected to further improv e and remain low on account of low utilization of working capital limits. Total outside liabilities to tangible net worth (TOL/TNW) stood healthy at 2.51 times as on March 31, 2019 against 2.38 times as on March 31, 2018. The net worth of Pace Group stood healthy at Rs. 206.53 Cr as on March 31, 2019 against Rs. 198.58 Cr as on March 31, 2018. The increase in the networth is on account of moderate accretion to reserves. The total debt of Rs. 138.44 Cr as on March 31, 2019 comprises short-term working capital debt from the bank of Rs.96.14 Cr, long term debt of Rs.33.85 Cr and unsecured loans of Rs.8.41 Cr. The Group is further diversifying its business into civil constructions and other digital projects, and phasing out from the telecom industry; for which traction is yet to be established.

  Debt protection metrics of the group has remained moderate with Interest Coverage Ratio (ICR) which stood moderate at 2.48 times for FY2019 against 4.07 times for FY2018. Similarly, Debt Serv ice Coverage Ratio (DSCR) stood at 1.79 times for FY2019 against 2.32 times for FY2018. Net Cash Accruals/ Total Debt (NCA/TD) has deteriorated and stood at 0.18 times in FY2019 against 0.38 times in FY2018. Further, the net cash accruals of the company stood at Rs. 24.35 Cr for FY2019 against repayment obligation of Rs.4.40 Cr. Acuité believes that the financial risk profile of the company is expected to remain moderate in the near to medium term with respect to shift in business lines however backed by no significant debt-funded capital expenditure.

Weaknesses

- **High working capital intensity**

  The operations of the Group are highly working capital intensive as the gross current assets (GCA) stood at 374 days as on March 31, 2019 as against 317 days as on March 31, 2018. The high GCA days is on account of high debtor and creditor days. The debtor days stood at 268 as on March 31, 2019 as against 249 days in previous year. The electrical projects are done on a back to back basis with the vendors; as soon as the payments are released from the DISCOM the payments are made to the vendors which results in high debtor and creditor days. The inventory days stood at 52 as on March 31, 2019 as against 34 days as on March 31, 2018. Further, working capital intensive operations have led to high utilization of its working capital limits as reflected in average CC utilization of ~91 percent in 9MFY2020. Acuité expects the working capital requirements of Pace Group is expected to remain highly intensive on account of high credit period offered to customers.

- **Exposure to risks associated with the telecom sector**

  Pace Group has been susceptible to adverse impact on its business risk profile owing to the overall downturn in the telecom sector. The customers to Pace Group are majorly telecom operators and other telecom companies and the constant price war between the telecom operators is to further impact the bargaining power of the group. However, with the far-sighted vision of the management, the group is slowly phasing out from the telecom sector and diversifying into civil construction, rural electrification projects and digital projects the traction of which is yet to be established.

Rating Sensitivities

- Diversification in business line and phasing out from the business with telecom industry with respect to stabilization in the same while maintaining the topline and its profitability
- Elongation in working capital cycle leading to deterioration in financial risk profile and stretch in liquidity

Material Covenants

None

Liquidity: Adequate

Liquidity of the Pace Group is adequate marked by moderate cash accruals to its repayment obligations. The Group has been generating adequate cash accruals of about Rs.24.35 Cr during through FY2019 and its repayment obligations are about Rs.4.40 Cr during the same period. The group's cash accruals are estimated to remain around Rs.25 to 29 Cr during the medium term while its repayment obligations are expected to be Rs.4 Cr to Rs.5.50 Cr; this gives adequate comfort for the incremental working capital requirements. The group's operations are highly working capital intensive as marked by gross current asset (GCA) days of 374 in FY 2019. This has led to high reliance on working capital borrowings at 91 percent through nine months ended

December 2019. Further unencumbered cash and bank balance of Rs. 17.02 Cr as on March 31, 2019. Acuité believes that though cash accruals are adequate, however, working capital intensive operations continue to constrain the liquidity partly.

Outlook: Negative

Acuité believes that the outlook on Pace Group will remain 'Negative' over the medium term owing to the overall downturn in the telecom sector, loss of orders leading to decline in topline and elongation in working capital cycle. The rating may be further downgraded in case of further decline in the operating margins or further deterioration in the working capital cycle. Conversely, the outlook may be revised to 'Stable' in case the group registers sustained growth in revenues and improving margins while diversifying into other business segment and working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	593.12	629.10
PAT	Rs. Cr.	9.98	24.24
PAT Margin	(%)	1.68	3.85
Total Debt/Tangible Net Worth	Times	0.67	0.42
PBDIT/Interest	Times	2.48	4.07

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Services Entities – https://www.acuite.in/view-rating-criteria-50.htm

Note on complexity levels of the rated instrument

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

Rating History (Upto three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
02-Jan-2019	Cash Credit	Long Term	45.00	ACUITE BBB+/Stable (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A2 (Reaffirmed)
	Proposed Bank Guarantee	Short Term	10.00	ACUITE A2 (Reaffirmed)
	Proposed Letter of Credit	Short Term	15.00	ACUITE A2 (Reaffirmed)
21-Nov-2018	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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE BBB+/Negative (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	35.00	ACUITE A2 (Reaffirmed)

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About Acuité Ratings & Research:
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