Press Release

Lineage Power Private Limited

June 10, 2021

Rating Reaffirmed & Assigned

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

* *Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BBB+' (read as ACUITE triple B plus)** and the short-term rating of **'ACUITE A2' (read as ACUITE A two)** on the Rs.80.00 crore bank facilities of Lineage Power Private Limited (LPPL). The outlook has been revised to **'Stable'** from **'Negative'**.

Acuité has assigned the long-term rating of **'ACUITE BBB+' (read as ACUITE triple B plus)** on the Rs.20.00 crore bank facilities of LPPL. The outlook is **'Stable'.**

Incorporated in 2010 and later acquired by PDIPL in 2014, Bangalore-based, LPPL is a 79.73-per-cent subsidiary of PDIPL. LPPL manufactures, supply and installs integrated power management systems in telecom sites. Along with this, the company also undertakes O&M of certain sites. The company was acquired by pace group in 2014 from General Electric.

Revision of Outlook: Stable
The revision in outlook is on account of improvement in the group's operating performance in FY2021 and expected growth over the medium term on account of diversification into infrastructure projects along with telecom & electrical projects and healthy order book position providing adequate revenue visibility over the medium term. The group reported revenues of Rs.523.06 crore in FY2021 (Provisional) as against Rs.491.13 crore in FY2020. The operating margins improved and stood at 9.99 percent in FY2020 as against 8.18 percent in FY2019. The operating margins stood in the range of 9-10 percent in FY2021 (Provisional) and is expected to remain in the same range over the medium term. At the same time, the working capital operations have improved as reflected by GCA days of around 340 days in FY2020 as against 374 days in FY2019 and is expected to improve going forward.

Analytical Approach
Acuité has consolidated the business and financial risk profiles of Pace Digitek Infra Private Limited (PDIPL) 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.

Pace Digitek Infra 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 mainly telecom and power sectors.

Key Rating Drivers

Strengths

- **Extensively experienced management**
  The company was incorporated in 2010, 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 group companies, PDIPL supply, installs, and maintains AC power equipment for telecom towers and also undertakes O&M of telecom towers. Another

major chunk of their business is electrical business where they are into infrastructure development for the rural electrification projects which is in the state of Jharkhand, UP & Bihar. The group has diversified into a vast category of infrastructure sector in FY2021. PREPL is engaged in installation of renewable energy equipment, mainly solar equipment, for telecom towers. Also, in all the O&M sites, they have installed power generating systems like solar power and lithium ion power generating units through which electricity is extracted and are sold to private players for usage of their own; whereas LPPL manufactures, supply and installs integrated power management systems in telecom sites. Along with this, the company also undertakes O&M of certain sites. The extensive experience of the management has helped the group to 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. However, the turnover of the group stood at Rs.491.13 crore in FY2020 as against Rs.593.12 crore in FY2019; the decline in topline in FY2020 is because the group had received an order with BSNL in August 2018 which did not capitalize due to the operational struggles BSNL is going through. Moreover, the current downturn in the Telecom industry, as a whole, is also another important factor which has led to the overall decline in the turnover. For FY2021 (Provisional), the Group has achieved topline of Rs.523.06 crore which shows an improvement in revenues as compared to FY2020. The group has large value of unexecuted orders of ~Rs.865.18 crore to be completed over the next two years which provides healthy revenue visibility over the medium term. The Group has also diversified their business line by taking orders of infrastructure projects to maintain the topline and margins.

Acuité believes that the group is expected to benefit from the promoters established presence in improving its business risk profile over the medium term.

- **Healthy financial risk profile**

  The group has healthy financial risk profile marked by tangible net worth of Rs.229.90 crore as on March 31, 2020 as against Rs.218.73 crore as on March 31, 2019. The gearing stood healthy at 0.55 times as on March 31, 2020 from 0.63 times as on March 31, 2019 on account of plough back of profits to reserves. However, working capital bank lines remains utilized at ~80-95 percent for last trailing 13 months ended March, 2021. The debt of Rs.126.84 crore consists of term loans of Rs.28.72 crore and working capital borrowings of Rs.98.13 crore as on March 31, 2020. Interest Coverage Ratio (ICR) stood moderate at 2.42 times for FY2020 as against 2.48 times in FY2019. Net cash accruals to total debt (NCA/TD) also stood moderate at 0.21 times in FY2020 as against 0.18 times in FY2019. DSCR stood moderate at 1.78 times in FY2020 as against 1.79 times in FY2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) improved and stood at 1.73 times as on March 31, 2020 as against 2.37 times as on March 31, 2019.

  The group has availed Term Loan (MSME_CCSL) for Rs.4.50 crore in June, 2020 for which the repayment is expected to be completed by September, 2022.

  Going forward, Acuité expects the financial risk profile to improve marginally in the absence of major debt funded capex plans and improvement in revenues.

Weaknesses

- **Working capital intensive operations**

  The group's working capital operations have improved but are still intensive marked by Gross Current Asset days (GCA) of 340 days in FY2020 against 356 days in FY2019 majorly due to high debtors days and creditors' days. The debtors' days stood at 249 days in FY2020 against 268 days in FY2019. The creditors' days stood at 231 days in FY2020 against 271 days in FY2019. 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 group has long pending receivables realizable after 180 days. So, timely realization of these bills will remain a key rating sensitivity. The inventory days stood at 49 days in FY2020 against 52 days in FY2019. The inventory policy depends on customers' requirements. But, the group generally maintains an inventory holding policy of 60-90 days. However, working capital bank lines remains utilized at ~80-95 percent for last trailing 13 months ended March, 2021.

  Acuité expects the working capital requirements of Pace Group is expected to improve but still remain intensive on account of high credit period offered to customers.

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

  Pace Group has been susceptible to adverse impact on its business risk profile owing to the overall downturn in the telecom sector. However, the decline in topline in FY2020 is due to non-operationalization of the orders from BSNL due to current situation of BSNL and the overall downturn in the telecom industry. 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 has slowly phased out from the telecom sector and diversified into infrastructure projects which limits the risks to a certain extent.

Rating Sensitivities
- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity.
- Any delay in realization of long pending receivables leading to heavy provisioning for doubtful debt and substantial decline in profitability levels.

Material Covenants
None

Liquidity: Adequate
The group has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The group generated cash accruals of Rs.24.35 crore – Rs.33.80 crore during the last three years through FY2018-20 against moderate repayment obligations in the range of Rs.4.40 crore – Rs.5.24 crore. It is expected to generate cash accruals in the range of Rs.35.46 crore – Rs.61.43 crore over the medium term, against moderate repayment obligations in the range of Rs.5.06 crore – Rs.6.84 crore; this gives adequate comfort for the incremental working capital requirements. Unencumbered cash and bank balances stood at Rs.6.50 crore as on March 31, 2020 with a current ratio of 1.43 times in the same period. Liquid investments stood at Rs.81.07 crore as on March 31, 2020 which mainly includes investments in equity shares and deposits with banks. The working capital limits remained utilized at ~80-95 percent for last trailing 13 months ended March, 2021.
Acuité believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligations. However, delay in realization of long pending receivables tantamount to heavy provisioning for doubtful debt leading to substantial decline in profitability levels.

Outlook: Stable
Acuité believes that Pace Group will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the group demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its profitability margins and improving debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the group registers lower than expected growth in revenues and profitability or delay in realization of long pending receivables leading to heavy provisioning for doubtful debt and substantial decline in profitability levels or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	491.13	593.12
PAT	Rs. Cr.	10.91	9.98
PAT Margin	(%)	2.22	1.68
Total Debt/Tangible Net Worth	Times	0.55	0.63
PBDIT/Interest	Times	2.42	2.48

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
Not Applicable

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
- Entities in Service Sector - https://www.acuite.in/view-rating-criteria-50.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
13-Mar-2020	Cash Credit	Long Term	45.00	ACUITE BBB+/ Negative (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	35.00	ACUITE A2 (Reaffirmed)
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	35.00	ACUITE A2 (Assigned)
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. Cr.)	Ratings/Outlook
Cash Credit*	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE BBB+/ Stable (Outlook revised from Negative) (Reaffirmed)
Term Loan (MSME_CCSL)	June-2020	8.20%	Sep-2022	4.50	ACUITE BBB+/ Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	15.50	ACUITE BBB+/ Stable (Assigned)
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)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A2 (Reaffirmed)

**PC/PCFC/FDB/FBE/BRD is sublimit of Cash Credit facility to the extent of Rs.15 crore and ILC/FLC (DA) is sublimit of Cash Credit facility to the extent of Rs.10 crore.*

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Ashvita Ramesh Analyst - Rating Operations Tel: 022-49294065 ashvita.ramesh@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,726 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.