

Press Release

Pemmasani Solar Power Private Limited

08 December, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 44.00 Cr
Long Term Rating	SMERA BBB-/Stable (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) on the Rs. 44.00 crore bank facility of Pemmasani Solar Power Private Limited (PSPPL). The outlook is '**Stable**'.

PSPPL is an Hyderabad based company incorporated in 2014 as a Special Purpose Vehicle (SPV) formed by the consortium of Sri Luxmi Tulasi Agro Paper Private Limited and Om Sakthi Wind Power Private Limited. The company is engaged in solar power generation and has installed capacity of 10 megawatt (MW) under a PPA (Power Purchase Agreement) with Southern Power Distribution Company of Telangana Limited (TSSPDCL). The solar plant is based on the Poly-crystalline Silicon technology and is located near Mahaboobnagar, Telangana. The commercial operations commenced from February, 2016. The PPA has been signed for the next 25 years at the rate of Rs.6.84 per unit. The plant evacuates power generated to the grid through the TSSPDCL Makthal Substation at 33 KV Voltage level. The day-to-day operations are managed by Mr. P. Satyanarayana Reddy, Mr. P. Panduranga Rao, Mrs. Sudha Rani and Mr. C. Mallikarjuna Rao.

PSPPL is part of the Om Sakthi & Sri Laxmi Group of companies which have interests in sectors including packing and renewable energy for more than two decades.

List of key rating drivers and their detailed description

Strengths:

Experienced management

The day-to-day operations are led by Mr. P. Panduranga Rao, Mrs. P. Sudharani, Mr. Mallikarjuna Rao Chandra and others who collectively possess around two decades of experience in the generation of renewable energy i.e. biomass energy and wind energy. Further, Director, Mr. P. Panduranga Rao has setup and operated more than 2700 MW of thermal and renewable energy projects.

Assured off-take

PSPPL has signed a PPA with Telangana Southern Power Distribution Company of Telangana Limited (TSSPDCL) for the entire capacity at fixed tariff rate of Rs. 6.84 per unit (kWh) for the next 25 years. This substantially mitigates any off-take risk associated with the projects. Further, the PPA is also secured by an irrevocable revolving LC opened by the TSSPDCL in favour of the PSPL. TSSPDCL shall make payment to PSPL within 30 days from the date of receipt of bill. Any delayed payment beyond sixty days shall attract penal interest for period beyond 30 days. The company entered into an agreement in March, 2015 and commenced operations in February, 2016. However going forward, the credit risk profile of the sole off-taker for PSPPL i.e. TSSPDCL will be a key rating sensitivity factor.

Comfortable financial risk profile

The company has comfortable financial risk profile marked by healthy network of Rs. 23.07 crore as on 31st March, 2017 as against Rs. 22.08 crore in the previous year. Further, the interest coverage ratio stood at 5.38 times and debt service coverage ratio (DSCR) stood at 2.92 times for FY2017. The gearing position stood at 2.05 times as on 31st March, 2017 as against 2.23 times in the previous year. For arriving at the gearing, SMERA has considered unsecured loan of Rs. 2.50 crore from related parties as part of the equity as same is subordinated to bank debt. The net cash accruals to total debt (NCA/TD) stood at 0.20 times for FY 2017 as against 0.04 times in the previous year. The company has reported healthy net cash accruals of Rs. 9.46 crore against debt obligation of Rs. 1.80 crore in FY 2017. SMERA believes going forward PSPPL will maintain its comfortable financial risk profile on account of improvement in tangible network alongwith repayment of term loan in the absence of major debt funded capex plan in the future.

Weaknesses**Limited operational track record**

The company commenced commercial operations from February 2015 and registered operating income of Rs. 13.99 crore for FY2017 as against Rs. 0.83 crore in the previous year.

Dependence on agro-climatic conditions

The performance of the solar plant is highly dependent on favorable climatic conditions including the solar radiation levels which have direct impact on the plant load factor (PLF). The company is presently operating at PLF of around 23 percent.

Exposure to regulatory risk

The company is exposed to regulatory risk as it is associated with the State Electricity Board. The company may face revision in the solar tariff as there have been instance of tariff revision by several other State Electricity Boards.

Analytical approach: SMERA has considered the standalone business and financial risk profile of the firm for arriving at the rating.

Applicable Criteria

- ☑ Infrastructure entities - <https://www.smera.in/criteria-infra.htm>
- ☑ Default Recognition - <https://www.smera.in/criteria-default.htm>
- ☑ Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Outlook: Stable

SMERA believes that PSPPL will maintain a stable outlook on account of the low offtake risk arising due to the enforcement of the Power Purchase Agreements (PPA) and extensive experience of the management in the power generation industry. The outlook may be revised to 'Positive' in case of higher than expected infusion of funds by the promoters along with a substantial decline in operating costs. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenue and profitability.

About the Rated Entity –Key Financials

For FY2017, PSPPL reported Profit after Tax (PAT) of Rs.0.70 crore on total operating income of Rs.13.99 crore compared with PAT of Rs. 0.06 crore on total operating income of Rs. 0.83 crore in FY2016. The tangible net worth stood at Rs. 23.07 crore as on 31 March, 2017 as against Rs. 22.08 crore in the previous year.

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

Any other information: Not Applicable

Rating History for the 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. Crore)	Ratings/ Outlook
Term Loan	N.A	N.A	July, 2030	44.00 [^]	SMERA BBB-/Stable (Assigned)

[^]Includes Sublimit of Rs. 40.00 crore in the form of Capital Expenditure Letter of Credit which will be converted to term loan in November, 2018.

Note on complexity levels of the rated instrument:

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

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations, Tel: 022-67141190 Email: vinayak.nayak@smera.in Shashikala Hegde, Senior Rating Analyst, Tel: 022-67141111 Email: shashikala.hegde@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

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