Press Release

Pemmasani Solar Power Private Limited

January 24, 2019

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 44.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** to the Rs. 44.00 crore bank facilities of Pemmasani Solar Power Private Limited (PSPL). The outlook is **'Stable'**.

PSPL is a Hyderabad based company, incorporated in 2014, engaged in solar power generation; it has an installed capacity of 10 megawatt (MW). PSPL entered into Power Purchase Agreement (PPA) with Telangana Southern Power Distribution Company Limited (TSSPDCL). The solar plant is based on the Poly-crystalline Silicon technology and is located near Mahaboobnagar in 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's Makthal Substation at 33 KV.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of the PSPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and assured off-take**

  The company is promoted by Mr. P. Panduranga Rao, Mrs. P. Sudharani, Mr. Mallikarjuna Rao and others. The promoters are in the power generation via biomass and wind energy for nearly two decades through other projects. PSPL has signed a PPA with TSSPDCL for the entire capacity at a fixed tariff rate of Rs.6.84 per unit (kWh) for 25 years till 2040. This substantially mitigates any off-take risk associated with the project. Further, the PPA is also secured by an irrevocable revolving LC opened by the TSSPDCL in favour of 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 the period beyond 30 days. The company entered into an agreement in March, 2015 and commenced operations in February, 2016. Acuité believes that PSPL is expected to enjoy the benefit of experienced management, and assured off-take with long-term PPA, though the credit risk profile of the sole off-taker for PSPL, i.e. TSSPDCL, will be a key rating sensitivity factor.

- **Moderate financial risk profile**

  Financial risk profile of the company is moderate marked by moderate gearing (Debt to equity ratio), total outside liabilities to tangible net worth (TOL/TNW), moderate debt protection metrics and debt service coverage ratio. Gearing is moderate at 1.71 times as on 31 March, 2018 against 2.05 times as on 31 March, 2017. The gearing improved on account of moderate accretions to reserves and repayment of term loans. TOL/TNW is comfortable at 1.82 times as on 31 March, 2018 as against 2.14 times as on 31 March, 2017. Net worth is moderate at Rs.25.04 crore as on 31 March, 2018 as against Rs.23.07 crore as on 31 March, 2017 (Includes quasi equity of Rs.2.50 crore). Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 5.50 times and 0.21 times respectively in FY2018. The debt Service Coverage Ratio (DSCR) is moderate at 1.95 times in FY2018 as against 2.92 times in FY2017. PSPPL's cash accruals are expected in the range of Rs.7-8 crore over the medium term which are adequate to service its debt obligations of about Rs.3.60 crore. Acuité believes that the financial risk profile of the company is expected to improve in the absence of major debt funded capital expenditure plans, repayment of termloans.

Weaknesses

- **Moderate working capital cycle**
  Working capital cycle of the company is moderate marked by moderate Gross Current Assets (GCA) at 120 days in FY2018 as against 102 days in FY2017. Increase in GCA days is due to delay in receivables from the customer. Debtors increase to 99 days in FY2018 as against 69 days in FY2017. Further, during the April-October 2018, receivables stretched to four months period. However, the company is charging simple interest at prevailing base prime lending rate of State Bank of India for delayed payment by TSSPDCL. Acuité believes that the working capital cycle is expected to be moderate over the medium term.

- **Dependence on 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.

Liquidity Position:

Liquidity of PSPL is healthy marked by adequate cash accruals and unencumbered fixed deposits / investments vis-à-vis repayment obligations. PSPL has reported cash accruals of Rs.9.09 crore in FY2018. Its expected cash accruals are in the range of Rs.7-8 crore over the medium term against which its repayment obligations are about Rs.3.60-Rs.4.50 crore. It has unencumbered fixed deposits / investments of about Rs.10.29 crore as on March 31, 2018 and the same are expected to be in the system over the medium term. Further, PSPL has no capex plans. Acuité believes that despite stretch in its receivables, the liquidity profile continues to be healthy over the medium term.

Outlook: Stable

Acuité believes that PSPL will maintain a 'Stable' outlook on account of the low offtake risk arising due to the enforcement of the long-term Power Purchase Agreements (PPA). The outlook may be revised to 'Positive' in case of higher than expected cash accruals owing to higher PLF or early repayment of loan. Conversely, the outlook may be revised to 'Negative' in case of any unplanned significant debt funded capital expenditure or investment of funds outside the business or any significant stretch in its receivables leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	13.67	13.99	0.83
EBITDA	Rs. Cr.	11.74	11.62	0.25
PAT	Rs. Cr.	1.97	0.70	0.06
EBITDA Margin	(%)	85.92	83.05	30.61
PAT Margin	(%)	14.41	5.04	7.57
ROCE	(%)	7.13	4.33	0.58
Total Debt/Tangible Net Worth	Times	1.71	2.05	2.23
PBDIT/Interest	Times	5.50	5.38	3.50
Total Debt/PBDIT	Times	3.56	3.99	96.85
Gross Current Assets (Days)	Days	120	102	451

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
- Infrastructure Entities - https://www.acuite.in/view-rating-criteria-14.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.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 Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-Dec-2017	Term Loan	Long Term	44.00	ACUITE BBB- / 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	44.00	ACUITE BBB- / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in Naveen Papisetty Analyst - Rating Operations Tel: 040-40055480 naveen.papisetty@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research Limited (Erstwhile SMERA Ratings 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 6,000 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.