

Press Release

Pemmasani Solar Power Private Limited

June 17, 2021



Rating Upgraded

Total Bank Facilities Rated*	Rs. 44.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has Upgraded the long-term rating to '**ACUITE BBB**' (**read as ACUITE triple B**) from '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs. 44.00 Crore bank facilities of Pemmasani Solar Power Private Limited. The outlook is '**Stable**'.

The upgrade in the rating is on account of stable operating incoming and continuous growth in profitability, healthy financial risk profile and adequate liquidity. In FY2021 (Provisional) the revenue stood at Rs.13.12 Crore as against Rs. 13.21 Crore in FY2020. EBITDA Margins stood at 84.92 percent for FY2021 (Provisional) as against 85.58 percent in FY2020. The PAT margin improved to 24.24 percent in FY2021 (Provisional) from 13.29 percent in FY2020. The net worth of the company stood at Rs.30.37 Crore as on 31 March, 2021 (Provisional) as against Rs.27.19 Crore as on 31 March 2020. The gearing level (debt-equity) improved to 1.01 times as on 31 March 2021 (Provisional) as against 1.26 times as on 31 March 2020. The interest coverage ratio (ICR) stood high at 3.90 times in FY2021 (Provisional) as against 2.97 times in FY2020. NCA/TD (Net Cash Accruals to Total Debt) ratio stood high at 0.26 times in FY2021 (Provisional) as against 0.21 times in FY2020. The company is prepaying its long term debt obligation.

About the Company

Pemmasani Solar Power Private Limited (PSPPL) was incorporated in the year 2014 by Mr. P. Satyanarayana Reddy, Mr. P. Panduranga Rao, Mrs. Sudha Rani and Mr. C. Mallikarjuna Rao. The company has its registered office in Hyderabad, Telangana. The company is engaged in generating solar power and has set up a solar power plant with 10 MW capacity in Mahabubnagar, Telangana.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of PSPPL 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.

• Healthy financial risk profile

Company's financial risk profile remained strong marked by high net worth, moderate gearing and strong debt protection metrics. The net worth of the company stood at Rs.30.37 Crore as on 31 March 2021 (Provisional) as against Rs.27.19 Crore as on 31 March 2020. The gearing level (debt-equity) stood at 1.01 times as on 31 March

2021 (Provisional) as against 1.26 times in 31 March 2019. The total debt of Rs.30.74 Crore as on 31 March 2021 (Provisional) only consists by secured loan. The interest coverage ratio (ICR) stood comfortable at 3.90 times in FY2021 (Provisional) as against 2.97 times in FY2020. NCA/TD (Net Cash Accruals to Total Debt) ratio stood high at 0.26 times in FY2021 (Provisional) as against 0.21 times in FY2020. DSCR stood strong at 1.65 times in FY2021 (Provisional) as against 1.47 times in FY2019. Debt-EBITDA stood at 2.58 times in FY2021 (Provisional) as against 2.91 times in FY2020.

Weaknesses

- **Intensive working capital nature of operation**

The working capital management of the company is intensive in FY2021 (Provisional) marked by Gross Current Assets (GCA) of 291 days in FY2021 (Provisional) as against 370 days in FY2020. The debtor levels stood at 213 days in FY2021 (Provisional) as against and 233 days in FY2020, respectively. However, the company is charging simple interest at prevailing base prime lending rate of State Bank of India, if any for delayed payments by its customers. Acuité believes that the working capital requirements will continue to remain intensive over the medium term on account of high debtor's days.

- **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 22 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.

Rating sensitivity

- Significant growth in profitability due to reduction in depreciation and finance cost.
- Company is planning to invest in new projects which will be funded by surplus deposit with banks.

Material Covenant

None

Liquidity position: Strong

The Company has Strong liquidity marked by sufficient net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.7.92 Crore in FY2021 (Provisional) as against CPLTD of Rs.3.60 Crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.7.00 Crore to Rs.9.00 Crore during FY2022-24 against CPLTD not more than Rs.3.60 Crore each year for the same period. Company's working capital operations are intensive marked by gross current asset (GCA) days of 291 days in FY2021 (Provisional). Company maintains unencumbered cash and bank balances of Rs.0.21 Crore as on 31 March 2021 (Provisional). The current ratio stands at 4.21 times as on 31 March 2021 (Provisional).

Outlook: Stable

Acuité believes that PSPPL 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	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	13.12	13.21
PAT	Rs. Cr.	3.18	1.75
PAT Margin	(%)	24.24	13.29
Total Debt/Tangible Net Worth	Times	1.01	1.26
PBDIT/Interest	Times	3.90	2.97

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>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
31-March-2020	Term Loan	Long term	44.00	ACUITE BB+ (Downgraded: Indicative))
24-January-2019	Term Loan	Long term	44.00	ACUITE BBB-/Stable (Reaffirmed)
08-December-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 Loan	August-2015	11.65%	June-2030	30.34	ACUITE BBB/Stable (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	13.66	ACUITE BBB/Stable (Upgraded)

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About Acuité Ratings & Research:

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