

## Press Release

### Pemmasani Solar Power Private Limited

September 02, 2022

### Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	44.00	ACUITE BBB   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	44.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has reaffirmed the long-term rating at **'ACUITE BBB' (read as ACUITE triple B)** on the Rs. 44.00 Crore bank facilities of Pemmasani Solar Power Private Limited. The outlook is **'Stable'**.

#### Rationale for reaffirmation

The rating has been reaffirmed on account of extensive experience of management in the renewable energy space, healthy financial risk profile of the company marked by strong net worth and comfortable debt metrics and adequate liquidity position. However, the rating is constrained by increase in receivables period from the counter party TSSPDCL which has put pressure on the working capital requirements for the firm and any further stretch could negatively impact the debt protection metrics. The concerns are mitigated to an extent by the unencumbered fixed deposits investments made by the company which gives Acuite the comfort that the fund would assist the company in managing liquidity requirements in case the receivables stretch further in the coming times.

#### 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

Acuite 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 comfortable debt protection metrics. The net worth of the company stood at Rs. 34.16 Crore as on 31 March 2022 as against Rs. 30.67 Crore as on 31 March 2021. The gearing level (debt-equity) saw slight moderation and stood at 1.07 times as on 31 March 2022 as against 1.00 times in 31 March 2021. The total debt of Rs. 36.43 Crore as on 31 March 2022 only consists of secured long term loans. The interest coverage ratio (ICR) stood comfortable at 3.80 times in FY 2022 as against 3.90 times in FY 2021. NCA/TD (Net Cash Accruals to Total Debt) ratio moderated and stood at 0.21 times in FY 2022 as against 0.27 times in FY 2021. DSCR stood at 1.61 times in FY 2022 as against 1.69 times in FY 2021. Debt-EBITDA moderated and stood at 3.19 times in FY2022 as against 2.58 times in FY 2021.

### **Weaknesses**

#### **Working Capital intensive nature of operations**

Company's operations are working capital intensive as evident by stretching of GCA days in FY 2022 which stood at 387 days as against 293 days in FY 2021. The stretch in GCA days was a result of elongation of debtor realization period. Debtor realization period has stretched to 331 days in FY 2022 as against 213 days in FY 2021. Because of the deterioration of the fiscal position of state discom TSSPDCL, the payment cycle has stretched to around 12 months. Earlier company used to receive the dues raised every month within 6-7 months but this year the cycle has increased to 12 months. This has resulted in stress in working capital requirements which prompted the company to on-board working capital term loans from State Bank of India. 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. The company has filed claim of Rs. 3.00 Cr as penal payment in State ERC which is sub-judice as of now. As per the management the situation is expected to improve in the coming times since TSSPDCL is expected to receive loans from IREDA which they will use to clear the dues and also power tariffs have been revised in the state of Telangana for every consumer bracket which is expected to improve the fiscal situation of the discoms which could help bring down the payment cycle back to 6-7 months.

#### **Dependence on climatic conditions**

The performance of the solar plant is highly dependent on favourable 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 21.35 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.

#### **Counter Party Risk**

Although the company has a long term Power Purchase Agreement with TSSPDCL (Southern Power Distribution Company of Telangana Limited) with fixed tariff rate of Rs. 6.84 per unit for 25 years, the counter party risk has evolved over the time with increase in receivable cycle in last fiscal. Any further stretch might have a negative impact on the operations of the company and could present liquidity issues in the coming times.

## Rating Sensitivities

- 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 covenants

None.

## Liquidity Position

### Adequate

The Company has adequate liquidity marked by sufficient net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.7.66 Crore in FY 2022 as against CPLTD of Rs. 4.73 Crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.7.23 Crore to Rs. 7.58 Crore during FY 2023-24 against CPLTD of Rs. 4.73 Crore and Rs. 5.73 crore for each respective year for the same period. Company maintains unencumbered cash and bank balances of Rs.1.10 Crore as on 31 March 2022. The current ratio stands at 5.88 times as on 31 March 2022. Company has unencumbered fixed deposit investment of Rs. 12.13 Cr as of FY 2022.

## 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.

## Other Factors affecting Rating

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	13.02	13.10
PAT	Rs. Cr.	3.49	3.48
PAT Margin	(%)	26.82	26.54
Total Debt/Tangible Net Worth	Times	1.07	1.00
PBDIT/Interest	Times	3.80	3.90

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

Not Applicable.

## Any other information

None.

## Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 Jun 2021	Proposed Bank Facility	Long Term	13.66	ACUITE BBB   Stable (Upgraded from ACUITE BB+)
	Term Loan	Long Term	30.34	ACUITE BBB   Stable (Upgraded from ACUITE BB+)
31 Mar 2020	Term Loan	Long Term	44.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
24 Jan 2019	Term Loan	Long Term	44.00	ACUITE BBB-   Stable (Reaffirmed)
08 Dec 2017	Term Loan	Long Term	44.00	ACUITE BBB-   Stable (Assigned)

**Annexure - Details of instruments rated**

<b>Lender's Name</b>	<b>ISIN</b>	<b>Facilities</b>	<b>Date Of Issuance</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Quantum (Rs. Cr.)</b>	<b>Rating</b>
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	13.66	ACUITE BBB   Stable   Reaffirmed
State Bank of India	Not Applicable	Term Loan	15-08-2015	11.65	15-06-2030	30.34	ACUITE BBB   Stable   Reaffirmed

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Shreyansh Singh Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:shreyansh.singh@acuite.in">shreyansh.singh@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### About Acuité Ratings & Research

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