



Press Release
Pemmasani Solar Power Private Limited
December 28, 2023
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	-	-

Rating Rationale

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

Rationale for reaffirmation

The rating has been reaffirmed on account of extensive experience of management in the renewable energy space, comfortable 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 dependence on climatic conditions for power generation and exposure to regulatory and counter party Risk. Going forward, timely receipt of payments of TSSPDCL and generation of adequate PLF levels will be key ratings monitorable

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.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profile of PEMMASANI SOLAR POWER PRIVATE LIMITED (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. PSPPL has signed a PPA with Southern Power Distribution Company of Telangana Limited (TSSPDCL), Government of Telangana, 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 PSPPL. TSSPDCL shall make payment to PSPPL 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 PSPPL 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 PSPPL, i.e. TSSPDCL, will be a key rating sensitivity factor.

Comfortable financial risk profile

Company's financial risk profile remained comfortable marked by improving net worth, low gearing and comfortable Debt Service Coverage Ratio (DSCR). The net worth of the company stood at Rs. 36.86 Crore as on 31 March 2023 as against Rs. 32.16 Crore as on 31 March 2022. The gearing level (debt-equity) improved and stood at 0.87 times as on 31 March 2023 as against 1.19 times in 31 March 2022. The total debt declined to Rs. 31.91 Crore as on 31 March 2023 from Rs.38.43 Cr as 31 March 2022 which consists of secured long term loans. PSPPL's Debt Service Coverage Ratio (DSCR) stood at 1.45 times in FY2023 as against 1.61 times in FY2022 and expects to maintain average DSCR of >2 times over contracted period. Acuité believes that the financial risk profile of the company will remain comfortable over the medium term on account of the stable operating performance of the solar plant over the years.

Weaknesses

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 23.68 percent. PSPPL in order to improve its PLF has installed tracker technology.

Exposure to regulatory and counter party 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.

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

- Generation of adequate PLF levels
- Timely receipt of payments from TSSPDCL.
- Sustainable improvement in Leverage and Solvency position of the company.
- Any deterioration in working capital cycle and liquidity profile of the company.

All Covenants

None

Liquidity Position: Adequate

PSPPL's liquidity is adequate marked by moderate generation of net cash accruals in FY2023 to its maturing debt obligations and moderate level of unencumbered cash and bank balance. The liquidity position of the company is comfortable on account of presence of secured payment mechanism with repayment of term loan is through Escrow account with comfortable DSCR expected until FY2031. Moderate operational metrics of the solar plant is expected to lead to average DSCR of more than 2x times in base case scenario. The cash account balance was recorded at Rs.0.18 Cr as of March 31, 2023 and liquid investment stood at Rs.12.78 Cr as on March 31, 2023. Acuité believes that the liquidity of the company is likely to improve over the medium term on account of stable plant operating metric and timely repayment of debt obligation resulting in reduction in interest obligation. However, timely collection of payment from TSSPDCL and company's ability to sustain the plant operating performance at favourable level will be key monitorables over the medium term for

the assessment of liquidity position of the company.

Outlook: Stable

Acuité believes that PSPPL will continue to benefit over the medium to long term on account of its long track record of operations, the experience of its management in the industry, its long-term PPA with TSSPDCL, and the presence of a structured payment mechanism. The outlook may be revised to 'positive' in the case of sustainable improvement in PLF resulting in higher power generation or prepayment of debt leading to higher-than-expected revenues and profitability with improvements in financial risk profile and capital structure. Conversely, the outlook may be revised to 'negative' in case PSPPL registers lower PLF, further high O&M expenses leading to lower-than-expected revenues and profitability, any to significant stretch in its working capital management, or a larger than expected debt-funded capital expenditure.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	13.19	13.02
PAT	Rs. Cr.	4.70	3.49
PAT Margin	(%)	35.66	26.82
Total Debt/Tangible Net Worth	Times	0.87	1.19
PBDIT/Interest	Times	4.04	3.80

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
13 Oct 2022	Term Loan	Long Term	30.34	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Proposed Bank Facility	Long Term	13.66	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
02 Sep 2022	Term Loan	Long Term	30.34	ACUITE BBB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	13.66	ACUITE BBB Stable (Reaffirmed)
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*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	20.17	ACUITE BBB+ Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	15 Aug 2015	11.65	15 Jun 2030	Simple	23.83	ACUITE BBB+ Stable Reaffirmed

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About Acuité Ratings & Research

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