Press Release

Tachocline Renewables Private Limited

May 07, 2019

Rating Downgraded

Total Bank Facilities Rated*	Rs.12.00 Crore
Long Term Rating	ACUITE B+ / Outlook: Stable (Downgraded from ACUITE BB-/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE B+**' **(read as ACUITE B plus)** from **'ACUITE BB-' (read as ACUITE double B minus)** to the Rs. 12.00 crore bank facilities of Tachocline Renewables Private Limited (TRPL). The outlook is **'Stable'**.

The rating downgrade reflects lower-than-expected revenues and accruals to repayment obligations. TRPL reported revenues of Rs.2.27crore in FY2019 against expectations of Rs.3.58 crore; significant drop in the revenues are owing to dispute in the tariff initially entered in the power purchase agreement (PPA). The agreed tariff was Rs.6.51 per Kwh, whereas due to delay in commencement of operations or other reason, BESCOM has revised the tariff to Rs.4.36 per Kwh leading to drop in revenues; the same has affected the accruals too. Its accruals are estimated at Rs.0.51 crore in FY2019 against repayment obligations of Rs.0.80 crore. However, the ratings favorably factors in the experienced promoters in the solar industry. The rating also takes into account the moderate Plant Load Factor (PLF) at about 20 per cent and stabilisation of its operations and long-term power purchasing agreement (PPA) with Bangalore Electricity Supply Company (BESCOM) for a period of 20 years.

Incorporated in 2017, Tachocline Renewables Private Limited (TRPL) is a Bangalore (Karnataka) based private limited company engaged in solar power generation. TRPL is promoted by Mr. Srinivas Rao Y and Mrs. Savitha A. TRPL is a special purpose vehicle (SPV) of Sagitaur Ventures India Private Limited (SVPL). The company is running a 3 mega-watt (MW) solar power plant at Belagere in Chitradurga district (Karnataka). It has has entered into a PPA with BESCOM, for 20 years at a tariff of Rs. 6.51 per unit from the commercial date (COD) of operations. The commercial operations of the plant started in June 2017.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the TRPL to arrive at this rating.

Key Rating Drivers

Strengths

Experienced management

Promoter Mr. Srinivas Rao Y has an experience of over a decade in the solar industry. He was earlier associated with Sagitaur Ventures Pvt Ltd (SVPL) which is into development of solar parks and other IT services. SVPL has 74 per cent holdings in the company, and balance is held by the land owner, Ms. Savitha. SVPL is a Karnataka based Company which is engaged in providing services in IT/Telecom, Semiconductor, Green Energy and core infrastructure under the leadership of Mr. B.V Naidu. Currently, he is also Co-Chairman of the 'Karnataka ICT Group' (ICT – Information and Communication Technologies) set-up by the Chief-Minister of Karnataka to strategise the road map for the Karnataka ICT growth for 2020. SVPL undertakes operation and maintenance of solar parks, provides land in developed solar park with required approvals and amenities. Acuité believes that TRPL enjoys the operational and financial synergies from the holding company.

Assured off take

TRPL has signed a PPA with BESCOM for the entire capacity at a fixed tariff rate of Rs.6.51 per unit (kWh) for the next 20 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 BESCOM in favour of TRPL. TRPL raises the invoice for the units generated and sold in the first week of following month, and the same is paid by BESCOM in a period ranging 5-30 days. Any delayed payment beyond sixty days shall attract penal interest for period beyond 30 days. The company entered into an agreement on 17 June, 2017 and commenced operations on 30 June, 2017. However, during the off-take period, BESCOM revised the tariff to Rs.4.36 per Kwh citing delay in the COD; this resulted in sharp dip in the revenues and accruals. TRPL has filed a representation before the Hon'ble Court of Karnataka for restatement of the original tariff, and the case is pending for disposal. Restatement of the original tariff is a key rating sensitivity factor for the viability of the project and key rating sensitivity factor, as the accruals are expected to be short of the repayment obligations.

Cash flow management:
TRPL raises bill for every calendar month on or before 5th of the succeeding month; and the payments are realised within a weeks' time. All the receivables come to the escrow account; and Bank recovers the due amount as per the timelines as the company has placed auto debit instruction. Further to the same, company maintains a minimum balance of Rs.30 lakhs in the account. For FY2019, the provisional cash accruals are about Rs.0.51 crore against repayment obligations of Rs.0.80 crore; the shortfall was met out of the free balances in the form of cash & bank balances and short-term advances given to others. The amount lying in other current asset is about Rs.1.3 crore, and advances given to the related parties are about Rs.4.18 crore as on March 31, 2018. TRPL has paid about Rs.1.41 crore against due amount of Rs.0.80 crore in FY2019. Acuite believes that though the cash accruals are short of the payment obligations, however, the financial flexibility it enjoys is expected to support in timely repayment of its obligations over the medium term. Further, differential amount of about Rs.1.6 crore for FY2018 and 2019 on account of the revision in tariff, in case allowed is expected to further boost the financial flexibility.

Weaknesses

Single-asset nature of operations; cash flows remain vulnerable to variability in solar irradiation
TRPL is entirely dependent on power generation from the solar power project for its revenues and cash accruals. Given the single-part nature of the tariff, the company may lose revenues and profits in case of non-generation of power. The single-location and single-asset nature of its operations pose the revenue risk. Further, plant load factor (PLF) also has a bearing on the revenues. FY2018 being the first year of operations, the average PLF was low at 16.50 per cent; however, it improved to about 19.8 per cent in FY2019. Acuité believes that TRPL's revenues and cash accruals continue to be susceptible to the solar irradiation and PLF.

Counterparty-credit risk associated with BESCOM:
The company is exposed to the counter-party credit risk of BESCOM, which is the sole-off taker. TRPL's revenues and cash flows are at risk of off-take, though the company has been supplying power to BESCOM since commencement of commercial operations and experienced management in Solar sector are expected to mitigate the off take risk. The company has entered into PPA with BESCOM on 01st July 2015 with a tariff of Rs. 6.51 per unit. However, BESCOM disputed the date of COD and consequently, it has applied lower tariff of Rs. 4.36 per unit. The company has filed a petition against BESCOM with Karnataka High Court to confirm tariff rate of Rs. 6.51 per KWh which is pending for disposal.

Liquidity Position:
TRPL's liquidity is stretched marked by low cash accruals vis-à-vis its repayment obligations. It has reported cash accruals of about Rs.0.51 crore in FY2019 on provisional basis against its repayment obligations of Rs.0.80 crore. The shortfall was met out of the realisations from short term advances and support from the promoters. Against its obligations of Rs.0.80 crore, it paid about Rs.1.41 crore. Over the medium term, its cash accruals are expected to remain around Rs.0.5-0.75 crore over the medium term against repayment obligations of about Rs.0.90 crore. Acuité believes that TRPL continues to enjoy the financial flexibility from its holding entity and Promoters for timely servicing of its debt.

Outlook: Stable
Acuité believes that TRPL will maintain a 'Stable' outlook on account of assured off-take, long term PPA and extensive experience of the management. The outlook may be revised to 'Positive' in case of higher than expected PLF and cash accruals. Conversely, the outlook may be revised to 'Negative' in case of any significant dip in power generation, further, leading to deterioration of its liquidity and accruals.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)
Operating Income	Rs. Cr.	1.55
EBITDA	Rs. Cr.	0.67
PAT	Rs. Cr.	(1.18)
EBITDA Margin	(%)	43.36
PAT Margin	(%)	(76.40)
ROCE	(%)	(3.26)
Total Debt/Tangible Net Worth	Times	1.82
PBDIT/Interest	Times	1.01
Total Debt/PBDIT	Times	17.67
Gross Current Assets (Days)	Days	407

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

None

Any other information

None

Applicable Criteria

- Default Recognition -https://www.acuite.in/view-rating-criteria-17.htm
- Infrastructure Entities -https://www.acuite.in/view-rating-criteria-6.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
03-May-2018	Term Loan	Long Term	12.00	ACUITE BB-/ 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	12.00	ACUITE B+/Stable (Downgraded)

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