

Press Release

Sri Sai Shivanagere Solar Power Private Limited

May 23, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs.5.60 crore.
Long Term Rating	SMERA BB-/ Stable (Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB-**' (**read as SMERA BB minus**) on the Rs.5.60 crore bank facilities of Sri Sai Shivanagere Solar Power Private Limited (SPL). The outlook is '**Stable**'.

Incorporated in June, 2015, SPL owns and operates one mega-watt (MW) poly crystalline grid connected solar power plant in Tumkur district (Karnataka). SPL is promoted by Mr. N Srinivasa Setty and Mr. S L Nagaraja Setty.

Key rating drivers

Strengths

Assured off-take through long term power purchase agreement (PPA)

SPL entered into a 25-year long PPA at a fixed tariff of Rs.8.40 per unit (kWh) of power supplied, with Bangalore Electricity Supply Company Ltd (BESCOM). This substantially mitigates demand and price risk associated with the project. Further, the PPA is also secured by an irrevocable revolving letter of credit (LC) opened by the BESCOM in favour of the SPL for payment assurance. SPL raises invoice on BESCOM on or before the fifth of the succeeding month, and the payments are received within 30 days from the bill submission date. SMERA believes that the assured off-take, long-term PPA and moderate counterparty receivable risk keeps the business risk profile moderate and stable over the medium term.

Presence of Debt Service Reserve Account (DSRA) and Escrow Mechanism

The bank facilities are backed by a Debt Service Reserve Account (DSRA) in the form of a fixed deposit, equivalent to three quarter's interest and principal for servicing the debt obligation. In addition, the bank facilities are supported by an escrow account through which all receipts from BESCOM shall be routed. The order regarding the manner in which funds shall be utilised has been clearly laid down. Further, surplus funds can be withdrawn only if a DSCR of 1.2 times is maintained based on the previous year's audited balance sheet. Further to the DSRA balance, the company enjoys Rs.0.10 crore of cash credit limit to support loan repayment, in case of any inordinate delay in receipt of the payment from BESCOM. SMERA believes that the ratings get comfort from the structure envisaged to ensure timely repayment of the bank facilities.

Weaknesses

Below-average financial risk profile:

The financial risk profile is constrained by high gearing (debt-to-equity) though supported by moderate Debt Service Coverage Ratio (DSCR). SPL has setup one mega-watt solar power plant at a project cost of Rs.7.50 crore funded out of term loan of Rs.5.50 crore and balance out of promoters' funds by way of equity and quasi-equity. SPL's net worth is eroded due to initial year's losses primarily on account of depreciation, resulted in high gearing at 14.16 times (Provisional) as of March 31, 2018. However, SPL's cash flows are adequate enough to service its debt obligations. DSCR is at a threshold level at 1.09 times in FY2018 being

its first full year of operations. However, the same is expected to improve to about 1.3 times over the medium term supported by full year revenues and cash accruals. SPL's DSCR is expected at about 1.7 times at its P90 plant load factor (PLF) of 22 percent for the tenure of its loan and 1.40 times in stress case scenario with PLF of 19 percent. SMERA believes that the financial risk profile is expected to be below-average due to single project revenues with high gearing levels over the medium term.

Limited track record of operations and geographical concentration risk in revenue:

SPL's power plant started operations in December, 2016 which entails modest track record of operations. The plant is situated in Karnataka leading to revenue concentration in a single geography, thereby, constraining its business risk profile.

Exposure to regulatory risks:

The company is exposed to risks associated with changes in government regulations. Currently, all state distribution companies (discoms) are required to procure a minimum of 15 percent power from renewable sources. In case of any changes in norms or any re-negotiation of the tariff price on account of high PPA price, grid connectivity issues may have a bearing on the business and financial risk profile of SPL.

Analytical approach:

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

Outlook:

SMERA believes that SPL will maintain a 'Stable' outlook over the medium term from its long term PPA with BESCOM and the waterfall mechanism. The outlook may be revised to 'Positive' in case of higher-than-expected revenues on account of higher generation of units or by addition of new capacity, or prepayment of debt thus improving the capital structure. Conversely, the outlook may be revised to 'Negative' if the power unit generation is lower than expected or less-than-expected cash accruals leading to deterioration of its financial risk profile and its liquidity.

About the rated entity Financials

	Unit	FY18 (Provisional)	FY17 (Actual)
Operating Income	Rs. Cr.	1.63	0.26
EBITDA	Rs. Cr.	1.34	-0.02
PAT	Rs. Cr.	-0.37	-1.21
EBITDA Margin	(%)	82.17	-5.91
PAT Margin	(%)	-22.99	-465.24
ROCE	(%)	7.69	-7.63
Total Debt/Tangible Net Worth	Times	14.16	7.15
PBDIT/Interest	Times	2.22	-0.02
Total Debt/PBDIT	Times	3.98	-1268.88
Gross Current Assets (Days)	Days	13	73

Any other information:

Not Applicable

Applicable Criteria

- Manufacturing Entities- <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

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

Not Applicable

Rating History (Upto last three years):

Not Applicable

***Annexure - Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loans	Not Applicable	Not Applicable	Not Applicable	5.50	SMERA BB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.10	SMERA BB-/Stable (Assigned)

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ABOUT SMERA

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