

Press Release

Soham Mannapitlu Power Private Limited

February 19, 2019

Rating Assigned



| | |
|-------------------------------------|-------------------------------|
| Total Bank Facilities Rated* | Rs. 30.00 Cr. |
| Long Term Rating | ACUITE BBB- / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 30.00 crore bank facilities of Soham Mannapitlu Power Private Limited (SMPL). The outlook is '**Stable**'.

SMPL is a Karnataka based company incorporated in 1993. It is operating a 15 Mega Watt Hydel power plant at Gurupur stream of Nethravathi river in Dakshina Kannada district in Karnataka. The company has entered into power purchase agreement (PPA) with Karnataka Power Transmission Corporation Limited (KPTCL) and supplying to Mangalore Electricity Supply Company Limited (MESCOM) for a period of 20 years from September 2009 to 2029.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management and assured offtake

The company is promoted by Mr. K Sadananda Shetty and family members who possess more than two decades of experience in the renewable energy sector. It is a fully owned subsidiary of Ambuthirtha Power Private Limited and is a part of Soham group, which operates hydro power projects with a cumulative capacity of 53.5 MW in Karnataka. SMPL has signed PPA agreement with KPTCL for the entire capacity at a rate of Rs.2.90/- with price escalation at 2 percent every year from Sept 2009 to Sept 2019. For the next 10 years, price will be fixed on mutual agreement between the parties. Current price as of December 2018 stood at Rs.3.4/- per Kwh.

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 MESCOM in favour of SMPL. MESCOM shall make payment to SMPL 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. Acuité believes that SMPL 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 SMPL, i.e. MESCOM, will be a key rating sensitivity factor.

• Comfortable Financial Risk Profile

Financial risk profile of the company is comfortable marked by healthy gearing (Debt to equity ratio), total outside liabilities to tangible net worth (TOL/TNW), moderate debt protection metrics and debt service coverage ratio. Gearing stood healthy at 0.94 times as on 31 March, 2018 against 1.22 times as on 31 March, 2017. Acuité has considered unsecured loans of Rs.30.00 crore as of March 31, 2018 from the promoters and group entities as quasi equity while arriving at the gearing, as the same are deployed for the construction of the project. Gearing improved on account of moderate accretions to reserves and repayment of term loans.

TOL/TNW stood healthy at 0.95 times as on 31 March, 2018 as against 1.22 times as on 31 March, 2017. Net worth is moderate at Rs.37.79 crore as on 31 March, 2018 as against Rs.34.90 crore as on 31 March, 2017 (Includes quasi equity of Rs.30.00 crore). Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 4.41 times and 0.19 times

respectively in FY2018. SMPL reported cash accruals of Rs.6.81 crore for FY2018; SMPL's cash accruals are expected in the range of Rs.6-7 crore over the medium term which are adequate to service its debt obligations of about Rs.4.20 crore; its outstanding debt is about Rs.8.4 crore as of January 31, 2019. Acuite believes that the financial risk profile of the company is expected to improve in the absence of major debt funded capital expenditure plans and scheduled repayment of term loans.

• Cash Flow Mechanism and healthy working capital cycle

SMPL's revenues and cash flows are seasonal, and its repayment obligations too. SMPL's loan repayments are scheduled during July-December with a monthly repayment of Rs.35.00 lakhs. There is no debt service retention account (DSRA) requirement during the peak season; however entire cash flows are routed through escrow account with waterfall mechanism. DSRA shall be maintained during the lean season for the interest obligations. SMPL is allowed to use excess cash flows; it has repaid about Rs.2.69 crores of unsecured loans to its group entities during FY2018. SMPL's unencumbered cash and bank balances are Rs.0.14 crore as of March 31, 2018. Working capital cycle of the company is healthy on account of healthy debtor cycle for the last three years under review. The company does billing every last day of the month, and the MESCOM pays the amount in 15 days period. Acuite believes that with no capex plans, moderate accruals to service its debt obligations and efficient working capital cycle, the liquidity profile of SMPL is expected to be comfortable over the medium term.

Weaknesses

• Susceptibility of power generation to hydrological risk

The operations of hydro power plants are largely dependent on the monsoon and the spread of the monsoon. As the project being run-of-the river, well spread monsoon is expected to support in higher unit generation and higher cash accruals. The project receives major rainfall during the period June to October with peak plant load factor (PLF) of about 72 percent during July - August and low PLF of 5-10 percent in November. SMPL's average PLF is about 23.5 and 21.6 percent in FY2018 and FY2019. SMPL's cash break-even is PLF of 17 percent basis FY2019 obligations. Though the PLF of SMPL is over 20 percent over the past five years, however any adverse monsoon may severely impact the cash flows and the financial flexibility, though partly mitigated by the group's support, in case of need.

Outlook: Stable

Acuite believes that SMPL will maintain a 'Stable' outlook on account of the low off take risk arising due to the enforcement of the Power Purchase Agreements (PPA) and extensive experience of the management in the renewable power sector. The outlook may be revised to 'Positive' in case of higher than expected PLF leading to higher cash accruals. Conversely, the outlook may be revised to 'Negative' in case of any significant drop in power generation levels, or any significant delay in receivables or any unplanned debt funded capital expenditure or withdrawal of unsecured loans leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 10.27 | 8.74 | 8.29 |
| EBITDA | Rs. Cr. | 8.82 | 7.34 | 6.54 |
| PAT | Rs. Cr. | 2.89 | 0.76 | -1.00 |
| EBITDA Margin | (%) | 85.89 | 83.98 | 78.84 |
| PAT Margin | (%) | 28.13 | 8.75 | -12.08 |
| ROCE | (%) | 6.57 | 4.31 | 6.40 |
| Total Debt/Tangible Net Worth | Times | 0.94 | 1.22 | 1.37 |
| PBDIT/Interest | Times | 4.41 | 2.77 | 1.82 |
| Total Debt/PBDIT | Times | 4.01 | 5.79 | 7.16 |
| Gross Current Assets (Days) | Days | 10 | 12 | 10 |

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.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)

Not Applicable

*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 | 30.00 | ACUITE BBB- / Stable |

Contacts

| Analytical | Rating Desk |
|---|---|
| <p>Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in</p> <p>Naveen Papisetty Analyst - Rating Operations Tel: 040-40055480 naveen.papisetty@acuiteinratings.in</p> | <p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p> |

About Acuité Ratings & Research:

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