

Press Release

Soham Phalguni Renewable Energy Private Limited

June 12, 2020

Rating Reaffirmed



| | |
|-------------------------------------|-----------------------------------|
| Total Bank Facilities Rated* | Rs. 25.00 Cr. |
| Long Term Rating | ACUITE BB-/Stable (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs.25.00 Cr bank facilities of SOHAM PHALGUNI RENEWABLE ENERGY PRIVATE LIMITED (SPPL). The outlook is '**Stable**'.

The reaffirmation in the rating has been derived from moderate business performance reflected by the gradual improvement in PLF in FY2020 as compared to FY2019. PLF stood at 23 percent in FY2020 against 22% in FY2019. The rating also factors the benefit of experienced management and assured offtake with long-term PPA with MESCOM and its credit profile along with the efficient and timely realisations from the same. However, the rating remained constrained on account of tightly matching liquidity reflected from net cash accruals against repayment obligations and inability to maintain the stipulated DSRA which has attracted penal interest.

SPPL was incorporated in the year 2002. The company is engaged in power generation. The company is running 10.5 MW mini hydel power plants at Gurupur Stream of Nethravathi River (downstream to Mannapitlu project) in Dakshina Kannada district in Karnataka. The company has commenced commercial production on June 27, 2015. It is a part of Soham Group and it is a fellow subsidiary company of Soham Renewable Energy India Private Limited (~58%) and Ambuthirtha Power Private Limited (~48%).

About the Soham Group

Soham Group was established in the year 1991, with Soham Renewable Energy India Private Limited (MW-6) being the flagship company of the group. Soham Group operates hydro power projects with a cumulative capacity of 53.5 MW in Karnataka. Other entities are Ambuthirtha Power Private Limited (MW-22.0) and Soham Phalguni Renewable Energy Private Limited (MW-10.50). The entities in the group have long term power purchase agreements (PPA) with several DISCOMs and corporates based out of Karnataka.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of SPPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management and assured off-take

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 part of Soham group, which operates hydro power projects with a cumulative capacity of 53.5 MW in Karnataka. SPPL had signed a PPA agreement with MESCOM for the entire capacity at a rate of Rs.2.90/- with price escalation at 2 percent every year from June 2015. Current price as of March, 2020 stood at Rs.3.40/- per Kwh. 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 MESCOM in favor of the SPPL. MESCOM shall make payment to SPPL within 15 days from the date of receipt of bill. Any delayed payment beyond sixty days shall attract penal interest for period beyond 30 days. The company entered into an agreement in November 26, 2004 and commenced operations in June, 2015. Acuite believes that SPPL 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 SPPL, i.e. MESCOM, will be a key rating sensitivity factor.

• Average financial risk profile

Financial risk profile of the company is average marked by healthy gearing, total outside liabilities to tangible net worth (TOL/TNW) though remain constrained by moderate debt protection metrics and debt service coverage ratio. Gearing stood healthy at 0.63 times as on 31 March, 2019 against 0.85 times as on 31 March, 2018. Gearing improved on account of moderate accretions to reserves and repayment of term loans. TOL/TNW stood healthy at 0.71 times as on 31 March, 2019 as against 0.95 times as on 31 March, 2018. Net worth is moderate at Rs.40.67 Cr as on 31 March, 2019 as against Rs.34.38 Cr as on 31 March, 2018. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 1.64 times and 0.09 times respectively in FY2019. SPPL reported cash accruals of Rs.2.21 Cr for FY2019 against debt obligations of about Rs.2.16 Cr. The cash accruals are estimated at Rs.2.60 Cr to Rs.3.00 Cr in the medium term against debt obligation of Rs.2.59 Cr. Acuite believes that the financial risk profile of the company is expected to remain average in the absence of major debt funded capital expenditure plans and scheduled repayment of term loans.

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 July to September with peak plant load factor (PLF) of about ~72 percent and low PLF of 20-40 percent in October to November. SPPL's average PLF is about 23 and 22 percent in FY2020 and FY2019. The PLF of SPPL is modest with about 20 to 23 percent over the past three 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.

Rating Sensitivities

- Timely receipt of payments from MESCOM
- Improvement in power generation

Material Covenants

None

Liquidity: Stretched

SPPL has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. The Company generated cash accruals of Rs.2.21 Cr for FY2019 while its maturing debt obligations are Rs.2.16 Cr for the same period. There is a stipulation for the company to maintain DSRA which is not being maintained for which the company paying 1% penal interest over and above the existing RoI (6 months interest during season and 3 months interest during off-season which works out to Rs.1.56 Cr). However, the company expects to top-up the DSRA by September 20 to – October 20 which is further expected to reduce the interest burden. The cash accruals are estimated at Rs.2.60 Cr to Rs.3.00 Cr in the medium term against debt obligation of Rs.2.59 Cr. The unencumbered cash and bank balance stood at Rs.0.03 Cr as on March, 2019. Acuite believes that liquidity of SPPL is expected to remain stretched on account tightly matching net cash accruals against repayment obligations in the medium term.

Outlook: Stable

Acuite believes that SPPL 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 leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 6.78 | 7.47 |
| PAT | Rs. Cr. | (0.53) | (0.08) |
| PAT Margin | (%) | (7.85) | (1.03) |
| Total Debt/Tangible Net Worth | Times | 0.63 | 0.85 |
| PBDIT/Interest | Times | 1.64 | 1.70 |

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

ICRA, vide its press release dated August 30, 2019 had denoted the rating as 'ICRA B' (Issuer Not Cooperating)' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

| Date | Name of Instrument/Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|-------------|-------------------------------|-----------|-----------------|------------------------------|
| 03-Apr-2019 | Term Loans | Long Term | 25.00 | 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 | 07-Nov-2012 | Not Applicable | 04-Nov-2024 | 25.00 | ACUITE BB-/Stable (Reaffirmed) |

Contacts

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About Acuité Ratings & Research:

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