Press Release

Patanjali Renewable Energy Private Limited

September 26, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 45.00 crore
Long Term Rating	ACUITE BBB- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned a long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** to Rs. 22.50 crore bank facilities and the short-term rating of **'ACUITE A3' (read as ACUITE A three)** to Rs. 22.50 crore bank facilities of PATANJALI RENEWABLE ENERGY PRIVATE LIMITED (PREPL). The outlook is **'Stable'**.

Incorporated in 2011 as Advance Navigation and Solar Technologies Private Limited and subsequently converted into Patanjali Renewable Energy Private Limited in 2018, the company is promoted by Acharya Balkrishna, who has a shareholding of 90.91 per cent in the company. The company is a part of 'Patanjali Group'. The company is engaged in the manufacturing of solar PV panel, solar battery and solar appliances, with its plant located in Greater Noida having an installed capacity of 60 MW. The company operates through its dealer distribution network, government tenders and EPC of solar power projects.

About the group

Patanjali began its operations with Patanjali Yogpeeth in Haridwar, Uttarakhand. Patanjali Yogpeeth is one of the largest yoga institutes in the country. Patanjali Ayurved Limited (PAL) was founded by Baba Ramdev in 2006, along with Acharya Balkrishna as a flagship entity of the group for research, development, treatment and the manufacturing of ayurvedic medicines. Baba Ramadev, known for his work in Ayurveda, business, politics and agriculture, is a brand ambassador for the group. Acharya Balkrishna owns 98.6 per cent of shares of PAL as of March 31, 2018.

After entering into the manufacturing of bulk ayurvedic medicines, PAL later branched out its operations to the FMCG market, where it soon established its presence as a major consumer goods manufacturing company. Patanjali has shown immense growth in the last 5 years. Growing at a fast rate, the company generated over Rs. 9,000 crore in 2017, making it the third largest FMCG brand after Hindustan Lever Limited and ITC in terms of overall revenue. Patanjali as a brand is now selling more than 350 products in the FMCG space such as noodles, biscuits, cosmetics, amla juice, ayurvedic medicines, and flour, to name a few.

Analytical Approach

Acuité has considered the standalone view of business and financial risk profiles of Patanjali Renewable Energy Private Limited. Acuité has also taken into consideration the benefits derived by the company in terms of higher financial flexibility arising out of its association with the 'Patanjali Group'.

Key Rating Drivers

Strengths

- **Association of the company with Patanjali Group**
  PREPL is promoted by Acharya Balkrishna and is a part of the 'Patanjali Group' that has established its presence in the FMCG sector over the past few years. Acharya Balkrishna has an experience of more than a decade in the FMCG and Ayurveda products sector. Mr. Sudhir Kumar Aggarwal, Mr. Som Suvedi and Mr. Rishi Kumar are the directors of PREPL. Mr. Sudhir Kumar Aggarwal is a Chartered Accountant, having more than 30 years of experience in international trading and he looks after the day-to-day

operations of the company. Mr. Rishi Kumar and Mr. Som Suvedi are associated with other group companies too, and have an extensive experience of over a decade in different lines of businesses. The senior management team is ably supported by a strong line of mid-level managers. PREPL has an unexecuted order book position of about Rs. 69.52 crore in FY2019, which shows adequate revenue visibility.

Acuité believes that PREPL will be able to leverage the strong market position of Patanjali brand and experience of its management in order to attract investors and lenders for existing and proposed projects as well as to develop relationships with its customers and suppliers.

- **Healthy revenue visibility bolstered by favorable industry environment**
  PREPL has an order book of around Rs. 69.52 crore for the production of solar modules as on July 2019. Further, the company has booked revenue of Rs. 24.00 crore for FY2019 (Provisional) with EBITDA margins of around 4.27 per cent. Green energy has healthy prospects on account of government policies and initiatives of MNRE (Ministry of New and Renewable Energy). PREPL is planning to expand its capacity in order to undertake bulk products, which further supports the revenue visibility.

  Further, PREPL is planning to explore new segments such as solar power projects through a new venture; however, the project is at the nascent stage. Acuité believes that the timely completion of the project will remain a key sensitivity.

- **Healthy financial risk profile**
  The financial risk profile of the company is healthy marked by moderate net worth, low gearing, healthy debt protection metrics and coverage indicators.

  The net worth of PREPL is moderate, estimated at around Rs. 31.24 crore as on 31 March, 2019 (Provisional). The net worth levels have seen significant improvement over the last three years through FY2019 on account of equity infusion of Rs. 27.52 crore by the promoters during the same period.

  The company has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.08 times as on March 31, 2018 and 1.29 times as on March 31, 2017. The leverage levels continue to remain low at around 0.04 times as on March 31, 2019 (Provisional). The company incurred a capex of Rs. 25.56 crore over the last three years to expand its scale of operations, while its incremental working capital requirement over the same period has been around Rs. 0.81 crores to support the increase in scale of operations. However, there will be further capital expenditure of around Rs. 8.00 crore to Rs. 10.00 crore for the purpose of ongoing expansion in the existing unit, along with the equity commitments of around Rs. 44.00 crore to Rs. 45.00 crore for the new venture, which will be funded through promoter's contribution and unsecured loans. PREPL's moderate cash accruals to the tune of about Rs. 0.89 crore have also supported in minimizing the reliance on external debt lead to healthy gearing and debt levels of 0.04 times and Rs. 1.30 crore as on March 31, 2019. The total debt of Rs. 1.39 crore as on 31 March, 2019 (Provisional) comprises of borrowings from its group companies. PREPL's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs.2.53 crore to Rs. 4.56 crore, which are estimated to remain adequate to service its repayment obligations while supporting incremental working capital requirements.

  The revenues of the company remained stable at Rs. 24.00 crore during 2018-19, while its operating margins improved from 3.33 per cent in FY2018 to 4.27 per cent in FY2019. The moderate profitability levels coupled with low debt levels has led to healthy debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 were healthy at 0.69 per cent and 34.96 times, respectively.

  Acuité believes that the financial risk profile of the company is expected to remain healthy on back of its conservative financial policy.

Weaknesses

- **Significant exposure to project risk**
  PREPL is exposed to significant project risk on account of ongoing expansion in its exiting unit as well as a new solar power plant proposed to be set up through a new venture. The company has undertaken a capex of Rs. 42.48 crore to enhance its installed capacity from 60 MW to 150 MW, which will be funded majorly through the promoter's contribution and a part of it will be funded through unsecured loans from related parties. With the increased capacity, it will be able to cater the demand for bulk orders.

Moreover, PREPL has recently entered into a joint venture with 'Gorakshasidhi Solar Power Projects Private Limited' to set up a 100 MW capacity solar power project. For this purpose, investment would be up to Rs. 121.242 crore in the form of equity and Rs. 356.77 crore through debt. The equity will be infused in the ratio of 37:37:26, of which 37 per cent will be contributed by PREPL, 37 per cent by GSPPPL and balance 26 per cent will be invested by the entity(s) with whom they will be entering into a PPA. The project is at its nascent stage and the expected date of commencement of operations is October, 2020. This new venture is critical, as PREPL will be a key supplier to the venture that supports the revenue visibility for the company. However, benefits from the capex are likely to accrue only in the long term due to the relatively longer gestation period.

Acuité believes that the timely completion of the projects, optimal utilization of installed capacity and timely debt repayments will be a key rating sensitivity factor.

- **Exposure to intense competition and susceptibility to volatility in raw material prices and forex rates**
  PREPL manufactures solar PV module, Li-ion batteries and other solar appliances, wherein the company has limited bargaining power due to high competitive pressures in the industry. However, the risk is mitigated to an extent on account of experienced management and established brand name.

  The company on the other hand procures solar cells, glass, junction box, interconnect and ribbon raw materials through imports as well as domestic market, the prices of which have remained volatile in the past. Further, PREPL has limited flexibility while passing on the raw material price changes to the customers leading to volatile profitability as reflected in (5.24) per cent to 4.27 per cent over the last three years.

  Further, the company is exposed to exchange rate fluctuation in order to sustain margins as the total raw material cost comprises of around 70 per cent of total sale, of which solar cell alone contributes more than 80 per cent of the total cost, with major imports from the countries such as China, Taiwan and Singapore.

Rating Sensitivity Factor

- Timely completion of ongoing expansion project and its funding
- Funding support to the new venture, while maintaining its business as well as financial risk profile

Liquidity position

The company has adequate liquidity profile marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 0.89 crore for FY2019 (Provisional), while it has no significant maturing debt obligations for the same period. The cash accruals of the company are estimated to remain around Rs. 2.53 crore to Rs. 7.63 crore during FY2020-22 against no significant repayment obligations. PREPL's working capital operations are intensive marked by gross current asset (GCA) of 238 days for FY2019 (Provisional). The company maintains unencumbered cash and bank balances of Rs. 0.35 crore as on 31 March, 2019 (Provisional). The current ratio stood healthy at 1.53 times as on 31 March, 2019 (Provisional). The company is likely to incur capex of Rs.8.00 crore to Rs. 10.00 crore over the medium term, which is likely to be funded by promoter's contribution, unsecured loans and internal accruals. The close association of PREPL with Patanjali Group enhances its resource mobilization ability significantly. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against debt repayments over the medium term.

Outlook: Stable

Acuité believes that PREPL will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to its extensive experience of promoters, healthy financial risk profile and healthy revenue visibility bolstered by favorable industry environment'. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' if the company generates lower-than-anticipated cash accruals, most likely as due to significant debt-funded capex or any significant withdrawal of capital, thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	24.00	24.10	8.66
EBITDA	Rs. Cr.	1.02	0.80	(0.45)
PAT	Rs. Cr.	0.29	(0.80)	(2.15)
EBITDA Margin	(%)	4.27	3.33	(5.24)
PAT Margin	(%)	1.22	(3.30)	(24.83)
ROCE	(%)	1.83	(4.81)	(31.67)
Total Debt/Tangible Net Worth	Times	0.04	0.08	0.03
PBDIT/Interest	Times	34.96	(91.82)	(191.11)
Total Debt/PBDIT	Times	1.24	(4.16)	(0.16)
Gross Current Assets (Days)	Days	241	82	673

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
Not Applicable

Applicable Criteria
• Default Recognition -https://www.acuite.in/view-rating-criteria-17.htm
• Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
• Manufacturing Entities -https://www.acuite.in/view-rating-criteria-4.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Up to 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
Proposed fund-based facilities	Not Applicable	Not Applicable	Not Applicable	22.50	ACUITE BBB-/ Stable (Assigned)
Proposed non-fund based facilities	Not Applicable	Not Applicable	Not Applicable	22.50	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.