Press Release

Nucleus Energy Private Limited

June 17, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 21.34 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BB+**' **(read as ACUITE double B plus)** to Rs. 21.34 crore bank facilities of Nucleus Energy Private Limited (NEPL). The outlook is **'Stable'**.

Nucleus Energy Private Limited (NEPL), incorporated in 2010 and promoted by the Taparia Family. The Taparia Family Group holds entire stake in NEPL through an intermediate company, Summervilla Trading & Agencies Private Limited. The company is managed by directors, Mr. Kamal Daga and Mr. Rajesh Malpani. The company is engaged in generation of solar power. NEPL had entered into Business Transfer Agreement (BTA) with Videocon Industries Limited (VIL) as on 30th March, 2017, thereby acquired Solar Plant of 5MW Grid connected Solar PV project situated at Warora, District Chandrapur, Maharashtra. The original Power Purchase Agreement (PPA) agreement of Videocon and NTPC Vidyut Vyapar Nigam Limited (NVVN) (100% owned by NTPC) was signed on 15.10.2010. Later, it was amended to include NEPL as Power Generator party as on 16.11.2017. As per PPA, NEPL shall be entitled to receive fix tariff of Rs.17.91/kWh for tenure of 25 years.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Low offtake risk due to presence of Power Purchase Agreement (PPA)**

NEPL transmits its entire power to NTPC Vidyut Vyapar Nigam Limited (NVVN) (100% owned by NTPC) under a 25-year PPA agreement. NVVN has been identified by Government of India as the nodal agency for facilitating purchase and sale of Solar bundled Power under the Jawaharlal Nehru National Solar Mission.

The Solar project was commissioned on 2011. The plant achieved average Plant Load Factor (PLF) remained around 15-17% for FY2017-19. As per the terms of PPA, NVVN shall pay the amount payable under the monthly bill by the 5th of the immediately succeeding month in which the monthly bill is issued. The Company has registered revenue from power sale of Rs.10.50 crore for 9M FY2020 as against Rs.15.28 crore for FY2019 and Rs.15.25 crore for FY2018. The revenue from power sale however has declined due to degradation of solar panels. In order to improve generation levels, the company is incurring capex to enhance DC capacity to its original levels.

Acuité expects that the company will be able to improve revenue from power generation on back of capex plans and PPA with strong counterparty.

- **Moderate Financial Risk Profile**

NEPL follows conservative financial policy marked by healthy net worth, low gearing and moderate debt protection metrics.

The tangible net worth stood at Rs.45.81 crore as on 31 March, 2019 as against Rs.45.56 crore as on 31 March, 2018. This includes unsecured loans of Rs.27.75 crore which are treated as quasi as it is subordinated to debt.

The gearing stood low at 0.62 times as on March 31, 2019 as against 0.74 times as on March 31, 2018. The total debt comprises only term loan of Rs.28.55 crore as on 31st March, 2019 as against Rs.33.55 crore in previous year. The company has maintained DSRA of Rs.5.5 crore against debt exposure. The Debt/EBITDA stood slightly higher at 2.31 times in FY2019 (PY: 2.17 times) mainly on account of the low EBIDTA margins. The moderate profitability coupled with low gearing levels has resulted in comfortable debt protection metrics, with interest coverage ratio (ICR) of 2.31 times (PY: 2.17 times) and NCA/TD of 0.28 times for FY2019. Moreover, with an Escrow mechanism in place, the receipts from NVVN are being realized by bank. The Total outside liabilities to tangible net worth ratio (TOL/TNW) remained low at around 0.77 times as on March 31, 2019 (PY: 0.81 times).

In FY2019, net cash accruals declined to Rs.7.94 crore as against Rs.11.15 crore in FY2018. The net cash accruals have declined on account of decline in net profits due to one-time execution of EPC contracts.

Acuité believes that NEPL will maintain moderate financial risk profile over the medium term on account of healthy networth, low gearing and no additional debt exposure.

- **Maintenance of Trust and Retention Account (TRA) and DSRA mechanism**

  The rating factors in the Structured Payment Mechanism put in place to ensure timely availability of funds for servicing of debt obligations. The company shall ensure of all the borrowing proceeds, equity, Insurance proceeds, all the cash flows from the Project received by the company into TRA. The proceeds shall be utilized for meeting the debt servicing obligations and later shall be utilized in the manner and priority set out in TRA agreement. The company shall maintain DSRA for an amount equal to the aggregate of the Loan and the Interest thereon which is falling due within next two quarters.

Weaknesses

- **Susceptibility of operating performance to technology risk**

  The solar radiation levels in the plant location and degradation of PV modules impact the power generation ability of the plant. In the event of faster than expected degradation, the generation of power could be impacted, thus, affecting the revenues and cash flows of NEPL. The solar plant has average Plant Load Factor (PLF) remained around 15-17% for FY2017-19. The degradation of panels and diversification of business in EPC contracts has significantly impacted operating margins marked by 39.72 percent for FY2019 as against 77.95 percent for FY2018 and 83.78 percent for FY2017. Acuité believes that timely upgradation of solar panels to achieve the high plant load factor resulting in improved margins and debt protection indicators will be key monitoring factor.

- **Exposure to intense competition and regulatory risks related to the solar sector in India**
  The performance of the solar power industry in India is dependent on the regulatory environment surrounding the industry. There has been a significant decline in cost of solar power primarily due to a marked decline in Photo-Voltaic (PV) cell prices in the recent past. Further, entry of large players has intensified the competitive landscape in the solar sector. However, the intense competition has also resulted in highly competitive prices. Acuité believes that this intense competition and changes in renewable energy related policies resulting in fewer solar power purchase commitments for Discoms and/or availability of low cost power from other sources may impact the scale of operations for NEPL.

Rating Sensitivity

- Improvement in operating income and operating and PAT margins
- Maintaining healthy financial risk profile

Material Covenants

- Maintenance of Trust and Retention (TRA) account
- NEPL shall at all times maintain Debt Service Reserve (DSRA) for an amount equal to the aggregate of the Loan and interest thereon which will fall due within next 2 quarters. NEPL has maintained DSRA of Rs.4.52 crore as on 31.3.2020.

Liquidity Position -Adequate

The company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.7.94-11.15 crore during the last two years through 2018-19, while its maturing debt obligations were in the range of Rs.5.58-6.10 crore over the same period. The cash accruals of the group are estimated to remain around Rs.8.50-12.00 crore during 2020-22, while its repayment obligations are estimated to be around Rs.6.10 crore. The company maintains DSRA of Rs.4.52 crore as on March 31, 2020 and unencumbered cash and bank balances of Rs.1.49 crore as on March 31, 2019. The current ratio of the company stood at 1.44 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual and no additional debt exposure over the medium term.

Outlook: Stable

Acuité believes that the outlook on NEPL will remain 'Stable' over the medium term on account of its parentage support, healthy financial risk profile and established operational track record of Solar power plant. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	29.66	17.38
PAT	Rs. Cr.	0.25	2.14
PAT Margin	(%)	0.83	12.30
Total Debt/Tangible Net Worth	Times	0.62	0.74
PBDIT/Interest	Times	2.84	3.58

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Infrastructure Entities - https://www.acuite.in/view-rating-criteria-51.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.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 Loan	29/09/2017	Not Applicable	15/07/2023	21.34	ACUITE BB+/Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Disha N. Parmar Analyst - Rating Operations Tel: 02249294054 disha.parmar@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research 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.