Press Release

Enersan Power Private Limited

October 06, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 43.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE B+**' **(read as ACUITE B plus)** on the Rs. 43.00 crore bank facilities of Enersan Power Private Limited (EPPL). The outlook is **'Stable'**.

Enersan Power Private Limited (EPPL) is a Gujarat based private limited company incorporated in May 2013. The company is engaged in operating a 10 megawatt (MW) solar power plant in the Kutch, Gujarat. In March 2014, EPPL entered into a PPA for entire power produced for 25 years with SECI. Solar power plant commenced its operations from September 2015. The company is promoted by Iron Triangle Limited (ITL) (erstwhile Backbone Enterprises Ltd.) which holds 34.00 percent stake, directors Mr. Balvantbhai Bavariya and Mr. Dipak Sangani.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced promoters with an established track record of operations**
  The promoters of EPPL include Iron Triangle Limited (erstwhile Backbone Enterprises Ltd. holds~34 percent stake), is an established player in the solar and civil infrastructure construction industry. Apart from EPPL, ITL also owns and operates three other solar power plants with a combined installed capacity of 25 Mega Watt (MW), located in EPPL's vicinity. The directors also possess two decades of experience in solar and civil infrastructure construction industry. The company is well supported by the second line of management. EPPL's solar power plant commenced generation from September 2015 and has an operational track record of around five years. However, generation from the plant has remained moderate over the past years. Acuité derives comfort from its promoter's experience in the solar industry and establish an operational track record.

- **Low off-take risk and expected improvement in liquidity**
  EPPL has entered into a Power Purchase Agreement (PPA) with SECI at a fixed levelized tariff of Rs.5.45 per unit of power for the entire agreement period of 25 years; largely mitigating the off-take risk. The company largely receives the payments from SECI for monthly bills raised within stipulated timelines. The receivable days stood in the range of 75-90 days in the past.

  Further, EPPL is required to maintain DSRA equivalent to one-quarter principal and interest dues, as per the sanctioned terms. However, in subsequent years, funds from DSRA were gradually withdrawn. As on August, 2020 the company has maintained Rs. 1.16 crores in DSRA account and is expected to maintain adequate funds over the period of the loan. Also, the company is eligible for subsidy under viability gap funding (VGF) from SECI of Rs. 4.32 crores which is likely to be received in FY2021 as they have cleared all the conditions under the scheme for its eligibility. Acuité expects the company to maintain adequate liquidity to service its debt obligations in a timely manner and improve its credit profile over the near to medium term.

Weaknesses

- **Average Financial risk profile and moderate power generation levels at lower than envisaged**

  The company has an average financial risk profile marked by negative net worth, higher gearing and average debt protection measures. EPPL's net worth is stood negative at Rs. 4.52 crore as on March 31, 2020 (Provisional) as against Rs. 1.10 crore as on March 31, 2019. The net worth stood declined on account of higher losses in FY2020 (Provisional) due to higher interest outgo and lower profitability levels. The company has followed a moderately aggressive financial policy in the past, with its peak gearing stood at around 51.06 times as on March 31, 2019. The Interest coverage stood low at 0.90 times as on March 31, 2020 (Provisional) as against 1.36 times as on March 31, 2019. NCA/TD also stood negative at 0.01 times in FY2020 (Provisional). The DSCR ratio also stood below one in the past three years due to lower net cash accruals against its repayment obligations.

  Also, the performance of the plant has remained moderated from an average Capacity Utilization Factor (CUF) of over 19.90 percent registered in FY2017 to around 17.57 percent in FY2019. The previous year company recorded lower performance due to breakdown and repair work held for two months impacting the operation of the solar plant. Further, it has remained lower than earlier envisaged levels of over 19.70 percent; largely attributed to low radiation levels in the past. However, CUF stood improved at 20.18 percent in 5MFY2021 and is expected to remain at the same level.

- **Exposure to interest rate and foreign exchange risk**

  EPPL is exposed to interest rate and foreign exchange fluctuation risk. Further, over 70 percent of EPPL's of its project loan is denominated in foreign currency; thus exposing it to foreign exchange risk in the absence of any hedging of the same. The interest rate risk prevails with the presence of an annual interest reset clause for the debt availed for the project. During FY2020 (Provisional), foreign exchange losses stood higher incurred on foreign currency loan at Rs. 2.86 crores as against Rs.1.41 crores in FY2019 and gain of Rs.0.01 crores in FY2018. Higher exchange losses have resulted in additional pressure on cash flows and resulted in higher losses.

- **Exposure to regulatory risk and dependence on climatic conditions, technological risks**

  The company is exposed to regulatory risks associated with tariff rates and changes in government policies for solar plants. Further, any change in terms of PPA due to events such as the renegotiation of rates by SECI will have an impact on the profitability and debt servicing metrics. Also, EPPL's solar power plant remains vulnerable to changes in climatic conditions and degradation in modules. The poly crystalline film technology used in its power plant is used by most of the domestic solar power producers; however, it has a relatively short track record of operations under Indian conditions, albeit a long track record of operations globally; thus exposing EPPL to technological risks. However, the risk is mitigated to a certain extent as the company has made necessary changes in last year and improvement in CUF is visible.

Liquidity Position: Poor

EPPL's liquidity stood poor due to negative cash accruals vis-à-vis its repayment obligations in FY2020 (Provisional). The net cash accruals of the company stood negative at Rs. 0.72 crores and unencumbered cash and bank balances of ~Rs.0.18 crore as on March, 2020 (Provisional). The current ratio stood at 1.88 times as on 31 March 2020 and Gross Current Assets (GCA) stood at 333 days as on March, 2020 (Provisional). Further, there were instances of delays observed in the past, however, were regularized as on March, 2020 (Provisional). Acuité expects liquidity of the company to improve on account of higher CUF and lower interest cost due to a reduction in long term debt obligations over the medium term.

Rating Sensitivities

- Experienced promoters with an established track record of operations
- Exposure to interest rate and foreign exchange risk
- Delays in receivables and further stretch in liquidity profile

Outlook: Stable

Acuité believes that EPPL will maintain a 'Stable' outlook over the near to medium term on account of its long term PPA with SECI. The outlook may be revised to 'Positive' if the plant is able to achieve higher than expected CUF resulting in improved cash accruals and debt protection indicators. Conversely, the outlook may be revised to 'Negative' if the company achieves significantly lower than expected cash accruals due to events like reduction in tariffs or lower output of units. Also, any further debt-funded capex will entail a Negative bias.

About the Rated Entity - Key Financials

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	8.47	8.94
PAT	Rs. Cr.	(5.62)	(3.39)
PAT Margin	(%)	(66.36)	(37.90)
Total Debt/Tangible Net Worth	Times	(12.25)	51.06
PBDIT/Interest	Times	0.90	1.36

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

Care Ratings vide its press release dated 29, April 2020 has downgraded rating to 'CARE D; Issuer Not Cooperating' on basis of delays in servicing of debt obligations.

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
Foreign Currency Term Loan	1-Apr-2014	Not Applicable	1-Apr-2029	31.60	ACUITE B+/ Stable (Assigned)
Term loan	04-Apr-2014	Not Applicable	30-Jun-2029	11.40	ACUITE B+/ Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in Rupesh Patel Senior Analyst - Rating Operations Tel: 022-49294044 rupesh.patel@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 8,000 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.

Disclaimer: *An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.*