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RATINGS & RESEARCH

Press Release

Sai Maithili Power Company Private Limited

December 06, 2021

Rating Assigned

Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	56.52	56.52	ACUITE BBB- | Stable | Assigned	
Non-Convertible Debentures (NCD)	5.61	5.61	ACUITE BBB- | Stable | Assigned	
Total	-	62.13	-	-

Rating Rationale

Acuité has assigned its long-term rating of **'ACUITE BBB-' (read as ACUITE t riple B 'minus')** on the Rs.56.52 Cr bank facilities of Sai Maithili Power Company Private Limited (SMPCPL).
Acuité has also assigned its long term rating of **'ACUITE BBB-' (read as ACUITE t riple B 'minus')** on the Rs.5.61 Cr Non-Convertible Debentures (NCDs) of Sai Maithili Power Company Private Limited (SMPCPL). The outlook is **'Stable'**.

Rationale for rating assigned

The rating assigned considers the established market presence of the Refex group in the Renewable energy sector, the extensive experience of the new management, expected support in business operations to be derived from the new management, presence of strong counterparty profile and structured payment mechanism. These rating strengths are partly offset by high geographical and customer concentration in the revenue profile, below-average financial risk profile and susceptibility of power generation to climate risk.

About the Company

Established in August, 2002, Sai Maithili Power Company Private Limited (SMPCPL) operates a 10 mega-watt (MW) solar power plant based on Photo Voltaic technology located at Gurha in Kolayat Tehsil, Bikaner District, State Rajasthan. SMPCPL is promoted by V S Lignite Power Private Limited (majority shareholder), currently part of Refex Group. The Board of Directors consists of Mr. Shishir Kalkonde and Mr. Navaluru Venkata Sreenivas.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and Assured off-take through long term power purchase agreement (PPA)**

The Refex group is involved in business of Refrigerant Gases, Renewable Energy Utility Grade

EPC projects, O&M of Solar Power Plants, Solar IPP businesses & Ash Disposal Management, Power Trading and Trading of Coal. Refex group has commissioned ~1 GW projects under differing conditions of Tamil Nadu, Maharashtra, Gujarat, Uttar Pradesh, Andhra Pradesh and Rajasthan. The group has a strong pipeline of ~250 MW+ under various stages of execution.

Refex Group follows conservative approach towards its capital management and manages the operations majorly through equity and internal accruals. SMPCPL entered into a 25-year long PPA at a fixed tariff of Rs.8.28 per unit (kWh) of power supplied, with NTPC Vidyut Vyapar Nigam Limited (NVVN). This substantially mitigates demand and price risk associated with the project. The company entered into an agreement in January, 2012 and the plant commenced its operations in February, 2013. Further, the PPA is also secured by an irrevocable revolving letter of credit (LC) opened by the NVVN in favour of the SMPCPL for payment assurance. SMPCPL raises invoice on NVVN on or before the fifth of the succeeding month, and the payments are to received within 30 days from the bill submission date. The Refex group is expected to manage the O&M activity of the solar plant and will ensure efficient cost structure to aid the financial risk profile of the company. Acuité believes that the presence of strong management, assured off-take, long-term PPA and moderate counterparty receivable risk keeps the business risk profile moderate and stable over the medium term.

- **Strong counter-party profile**

SMPCPL has entered into a 25 year long PPA at a fixed tariff of Rs. 8.28 per unit with NTPC Vidyut Vyapar Nigam Limited (NVVN). NTPC Vidyut Vyapar Nigam Ltd. (NVVN) was formed by NTPC Ltd in the year 2002, as its wholly owned subsidiary to tap the potential of power trading in the country. NVVN holds a highest Category 'I' power trading license as per latest CERC regulation. NVVN is also the nodal agency for sale of 1,000 MW (733-MW operational) solar bundled power under Jawaharlal Nehru National Solar Mission (JNNSM) Phase I. The company has strong payment track record from its counterparty-NVVN, thereby, leading to low counterparty risk. NVVN has been making all the payments within a week's time from submission of invoice, and availing prompt payment discount of 2 percent. Acuité believes that the presence of strong counterparty profile mitigates the receivable risk keeps the business risk profile moderate and stable over the medium term.

- **Stability in Plant load factor (PLF); ability of the plant to perform better than the P90 PLF**

SMPCPL has generated 16.83 Million Units (MU) and supplied 16.69 Million Units (MU) in FY2021 to NVVN; its 8th year of operations, thereby leading to a moderate PLF of 19.06 per cent. As per the abstract from the study conducted on the solar project of SMPCPL, the 10-year period P90 level (P90 is the PLF level that a solar panel is 90 percent likely to exceed in a given year) net energy output was estimated at 15,802 MW for 2021. However, the plant was able to supply 16,694 MW to NVVN in FY2021, indicating better performance than the P90 estimates. Acuité believes that the stability in operational performance of the plant will ensure improvement in the financial risk profile over the medium term.

- **Presence of Structured payment mechanism**

The bank facilities availed by SMPCPL are backed by a Debt Service Reserve Account (DSRA) in the form of a fixed deposit, equivalent to 3 quarter's interest and principal for servicing the debt obligation. In addition, the bank facilities are supported by a Trust and Retention account (TRA) through which all receipts from NVVN shall be routed. The order regarding the manner in which funds shall be utilized has been clearly laid down by the lender. Further, there is presence of cash sweep clause which allows the lender to utilize the surplus amount in the TRA account towards the prepayment of the debt undertaken by the company. Acuité believes that the lender derives comfort from the structure envisaged to ensure timely repayment of the bank facilities over the medium term.

Weaknesses

- **Below-average financial risk profile**

The financial risk profile of the company is constrained by high gearing (debt-to-equity) though supported by moderate Debt Service Coverage Ratio (DSCR). SMPCPL has setup 10 mega-watt solar power plant at a project cost of Rs.100.00 Cr funded out of term loan of Rs.63.00 Cr and balance out of promoters' funds by way of equity and unsecured loan. SMPCPL's net worth has been eroded over the years on account of depreciation, high interest cost and O&M expenses. In FY2021, the company has written off advances given to a group company of Rs.10.89 Cr and this practice resulted in deterioration of net worth leading to high gearing at 3.49 times (Provisional) as of March 31, 2021. However, SMPCPL's cash flows are adequate enough to service its debt obligations. Acuité believes that the financial risk profile of the company to remain stable over the medium term on account of stable operating performance of the solar plant over the years.

- **High customer concentration and geographical concentration in revenue profile**

SMPCPL has entered into the PPA agreement for sale of power generated from the 10 MW solar plant located in Rajasthan with NTPC Vidyut Vyapar Nigam Ltd. (NVVN) along with 100% per cent assured offtake. However, it can be observed that the contribution from a single customer (i.e. NVVN) is 100.00 per cent in a given financial year, thereby, leading to significant customer and geographical concentration risk. Above risk is mitigated to an extent on account of strong credit profile of the counterparty.

- **Revenue profile susceptible to climatic risk and government regulation**

The performance of the solar plant is highly dependent on favorable climatic conditions including the solar radiation levels which have direct impact on the plant load factor (PLF). The company is presently operating at PLF of around 19 percent. Acuité believes that the company's business profile and financial profile can be adversely impacted on account of presence of inherent climate risk and also regulatory risk in any instances of tariff revision.

ESG factors relevant for rating

SMPCPL is a renewable power producer based on solar photo voltaic technology and therefore, directly contributes to the reduction of carbon emissions. The other material factors from the environmental perspective are green supply chain and waste management. The governance factors that play an important role are ethical business practices, board oversight and management compensation. Further, risk management practices to minimise corruption associated with electricity and gas distribution plays a crucial role. Additionally, regulatory compliance, shareholder's rights and audit control are other material issues in the power generation industry.

On the social front, occupational and workforce health & safety management are of primary importance to this industry given the nature of operations. The policies on responsible procurement and product safety as well as quality are of utmost significance.

Liquidity Position: Adequate

SMPCPL's liquidity is adequate marked by moderate generation of net cash accruals in FY2021 to its maturing debt obligations and moderate level of unencumbered cash and bank balance. The liquidity position of the company is comfortable on account of presence of secured payment mechanism with Trust and retention account to monitor the cash flows generated from the projects, presence of waterfall mechanism, presence of 3-month Debt Service Reserve Account (DSRA) in the form of a fixed deposit for interest and principal repayment obligation coupled with moderate DSCR expected until FY2032. Moderate operational metrics of the solar plant and presence of cash sweep clause to utilize the surplus funds for prepayment is expected to lead to DSCR of around 1.63x times in base case scenario, 1.83x times in best case scenario and 1.39x times in stress case scenario. SMPCPL is mainly dependent on the receivables from NVVN for the electricity generated for the debt repayment. The TRA account balance was recorded at Rs.0.56 Cr as of March 31, 2021and has improved to Rs.1.46 Cr as of September 30, 2021. The DSRA account reserves stood at Rs.2.64 Cr as of September 30, 2021. Acuité believes that the liquidity of the firm is likely to improve over the medium term on account of stable plant operating metric, support from new management and timely repayment of debt obligation resulting in reduction in interest obligation. However, timely collection of payment from NVVN and company's ability to sustain the plant operating performance at favorable level will be key monitorables over the medium term for the assessment of liquidity position of the company.

Rating Sensitivities

Positive

- Substantial improvement in PLF while maintaining profitability margins over the medium term.
- Sustainable improvement in Profitability, Leverage and Solvency position of the company.

Negative

- Significant deterioration in the operating performance of the plant leading to lower than expected PLF.
- Delays in receivables from the NVVN.
- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any weakening of financial risk profile of the company.

Material Covenants

None

Outlook: Stable

Acuité believes that SMPCPL will continue to benefit over the medium to long term on account of long track record of operations, experience of the management in the industry, long term PPA with NVVN and presence of structured payment mechanism. The outlook may be revised to 'Positive', in case of in case of sustainable improvement in PLF resulting in higher power generation, or prepayment of debt leading to higher-than-expected revenues and profitability with improvement in financial risk profile and capital structure. Conversely, the outlook may be revised to 'Negative' in case SMPCPL registers lower PLF, or high O&M expenses leading to lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt- funded capital expenditure.

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	13.53	13.32
PAT	Rs. Cr.	(11.68)	(0.36)
PAT Margin	(%)	(86.31)	(2.70)
Total Debt/Tangible Net Worth	Times	3.49	2.21
PBDIT/Interest	Times	0.10	1.52

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 Sector: https://www.acuite.in/view-rating-criteria-51.htm
• Application Of 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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
L&T Infrastructure Finance Company Limited	Not Applicable	Term Loan	05-07-2016	Not available	01-02-2032	20.00	56.52	ACUITE BBB- | Stable | Assigned
L&T Infrastructure Finance Company Limited	Not Applicable	Term Loan	05-07-2016	Not available	01-02-2032	36.52	0.00	ACUITE BBB- | Stable | Assigned
Not Applicable	Not Applicable	Non-Covertible Debentures (NCD)	05-07-2016	Not Applicable	01-02-2032	5.61	5.61	ACUITE BBB- | Stable | Assigned

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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 8,850 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 Kanjurmarg, Mumbai.

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