Press Release

Sai Maithili Power Company Private Limited

December 06, 2022

Rating Assigned, Reaffirmed and Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	8.50	ACUITE BBB- | Stable | Assigned	-
Bank Loan Ratings	56.52	ACUITE BBB- | Stable | Reaffirmed	-
Non Convertible Debentures (NCD)	5.61	ACUITE BBB- | Reaffirmed & Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	65.02	-	-
Total Withdrawn Quantum (Rs. Cr)	5.61	-	-

Rating Rationale

Acuité has reaffirmed and assigned its long-term rating of '**ACUITE BBB-' (read as ACUITE t riple 'B minus'**) on 65.02 Cr bank facilities of Sai Maithili Power Company Private Ltd. The outlook is '**Stable**'.
Acuite has further reaffirmed and withdrawn the long term rating of **ACUITE BBB- (read as ACUITE t riple B minus)** on 5.61 Cr NCD of SMPCPL. The rating has been withdrawn on account of request received from the company on the Acuite's policy of withdrawal of ratings..

Rationle for the rating
The rating reaffirmation considers the established market presence of the Refex group in the Renewable energy sector, the extensive experience of the new management and the, expected support in business operations to be derived from them, presence of strong counterparty profile and the structured payment mechanism. The company has completed a refinance of its term loan and NCDs with L&T Infrastructure Finance Company through term loan from HDFC bank in order to reduce its interest cost. The 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 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.

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 worth 2.55 Cr. In addition, the bank facilities are supported by a Ecrow account 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 escrow 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 megawatt 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, O&M expenses, write off of loans and advances given to previous group companies and no fresh infusion of capital by new management. In FY2021 and FY2022, the company has written off advances given to a group company of Rs.30.48 Cr and this practice resulted in deterioration of net worth leading to high gearing at 11.23 times as of March 31, 2022. 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 18 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.

Rating Sensitivities

Positive

- Substantial improvement in PLF while maintaining profitability margins over the medium term
- Sustainable improvement in 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, leading to a deterioration in working capital cycle and liquidity profile of the company

Material covenants
None

Liquidity: Adequate
SMPCPL's liquidity is adequate marked by moderate generation of net cash accruals in FY2022 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 1.07x times in base case scenario, 1.09x times in best case scenario and 1.02x times in stress case scenario. SMPCPL is mainly dependent on the receivables from NVVN for the electricity generated for the debt repayment. The escrow account balance was recorded at Rs.0.81 Cr as of March 31, 2022. The DSRA account reserves stood at Rs.1.75 Cr as of October 31, 2022. 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 monitorabl es over the medium term for the assessment of liquidity position of the company.

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.

Other Factors affecting Rating
None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	12.87	13.53
PAT	Rs. Cr.	(20.56)	(4.05)
PAT Margin	(%)	(159.68)	(29.96)
Total Debt/Tangible Net Worth	Times	11.23	2.46
PBDIT/Interest	Times	(1.32)	0.10

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria

- Default Recognition :- https://www.acuite.in/view-rating-criteria-52.htm
- Rating Process and Timeline: https://www.acuite.in/view-rating-criteria-67.htm
- Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on **www.acuite.in.**

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Dec 2021	Term Loan	Long Term	56.52	ACUITE BBB- | Stable (Assigned)
	Non Convertible Debentures	Long Term	5.61	ACUITE BBB- | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
L&T Infrastructure Finance Company Ltd.	Not Applicable	Non-Convertible Debentures (NCD)	Not Applicable	Not Applicable	Not Applicable	Simple / Complex	5.61	ACUITE BBB- | Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.38	ACUITE BBB- | Stable | Assigned
HDFC Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	0.50	ACUITE BBB- | Stable | Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	56.52	ACUITE BBB- | Stable | Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.02	ACUITE BBB- | Stable | Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.60	ACUITE BBB- | Stable | Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.