

Press Release

IA Hydro Energy Private Limited

December 30, 2021



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Ratings Loan	225.00	ACUITE BBB+ CE Stable Assigned	
Total	225.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB+ (CE)**' (read as **ACUITE triple B plus credit enhancement**) to the Rs. 225.00 crore bank facilities of IA Hydro Energy Private Limited (IAHEPL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating reflects the comfort drawn from strong financial support from Bajrang group with DSRA equivalent to three months of interest and principal obligations, escrow mechanism with a well-defined waterfall mechanism and irrevocable and unconditional corporate guarantee from the parent company, The company has long term PPA with Haryana Power Purchase Centre for purchase of power on behalf of Uttar Haryana Bijli Vitran Nigam (UHBVN) and Dakshin Haryana Bijli Vitran Nigam (DHBVN) which provides long term revenue visibility. It is further supported by moderate financial profile, increase in operating revenues from power generation from Rs. 60.51 Cr in FY2020 to 66.31 Cr in FY2021 and expected reduction in interest cost and repayment obligation consequent to takeover financing by IREDA with a tenure of 27 years.

These rating strengths are partially offset by counterparty credit risk as discoms are at present facing liquidity constraints and moderately efficient operations of the company due to high variable cost of power generation. Also, there are hydrological risks associated with run-of-the-river power generation and working capital intensive nature of operations.

About the Company

IA Hydro Energy Private Limited was incorporated in the year 2017. The company is engaged in power generation. The company is running a 36 MW hydel power plants at Bairah/ Chanju Stream of Ravi River, a sub-tributary of river Ravi (downstream) in Chamba District of Himachal Pradesh. The company has commenced commercial production in May 2017. It is a part of Bajrang group.

About the Group

Bajrang Group was formed with the incorporation of Shri Bajrang Power & Ispat Limited in 2002 by "Goel" family based out of Raipur in Chattisgarh. SBPIL is engaged in manufacturing of intermediate products like sponge iron & billets and also value added products like TMT bars, HB wire etc. In the year 1991, the Group entered into the business of Iron & Steel with a Re-Rolling Mill in the name of Shri Bajrang Alloys Ltd., with an installed capacity of 30,000 MTPA. Since then, the group has gradually grown into an integrated steel player. SBPIL have successfully completed backward integration initiatives like setting up of iron ore beneficiation of ~10 lakh tonne and pellets 12 lakh tonne plant and expansion of sponge iron capacity to 150,000 MT power 16 MW.

About the corporate guarantor- Shri Bajrang Power & Ispat Limited

SBPIL was incorporated in the year 2002 and is engaged in manufacturing of intermediate products like sponge iron & billets and also value added products like TMT bars, HB wire etc. As on 31.03.2021, SBPIL held ~90.46 per cent of the total shareholding of IAHEPL. The rated bank facilities are secured by the corporate guarantee of SBPIL.

Standalone (Unsupported) Rating: ACUITE BBB-

Analytical Approach

For arriving at the rating, Acuité has taken a standalone view of the business and financial risk profile of IAHEPL, which is strengthened by the support from Bajrang group, since IAHEPL is an integral part of the Bajrang group. Further, Acuité has considered credit enhancement in the form of DSRA equivalent to three months of interest and principal obligations, escrow mechanism with a well-defined waterfall mechanism and irrevocable and unconditional corporate guarantee from the parent company while arriving at the rating

Key Rating Drivers

Strengths

>Strong financial support from Bajrang Group

IAHEPL is part of the energy infrastructure business of Bajrang Group, which was established in 2002. It is a subsidiary of Shri Bajrang Power & Ispat Limited with 90.46 per cent shareholding and is a part of Bajrang group. Bajrang Group has an established market position in the real estate and integrated township development industry. The group has a strong presence in Central India and has earned a strong reputation for manufacturing of iron ore, steel and steel products in Central India. The group has further broadened its horizons by venturing into manufacturing and service sector, thereby offering a diverse portfolio of products including TMT bars, wire rods, HB wires, sponge iron, pellets, steel billets, ferro alloys, fly ash bricks, and digital marketing and media.

The promoters have already infused a total of Rs. 173.14 Cr. as on March 31, 2021 by way of unsecured loans. Acuité while arriving at the rating has factored additional funding support from the promoters to support the liquidity in the company.

Also, Shri Bajrang Power & Ispat Limited and Shri Bajrang Energy Private Limited have provided an irrevocable and unconditional corporate guarantee. With a 3 months DSRA in place which is equivalent to 3 months of interest and principal repayment of the debt facilities of IAHEPL. Moreover, there is an escrow account along with a TRA agreement (Trust and Retention agreement) which ensures a strong waterfall mechanism ensuring timely servicing of debt. As per the said waterfall mechanism, in case of any shortfall in the repayment of debt on due date in the escrow account the trust bank shall on the due date will dip into the DSRA to make good any shortfall, if any. Further, any surplus received going forward will go towards replenishment of the DSRA account, Rs 2 crores additional reserve to be maintained for meeting any contingency and Rs 9 crores to be maintained as annual operational and maintenance cost. Hence, there is automatically triggering of DSRA and proper waterfall mechanism in place which ensures timely repayment of debt.

Acuité believes that the foray into energy infrastructure is part of the diversification strategy of the Bajrang Group and IAHEPL being an integral part of that strategy, will be strongly supported by the promoters. Nevertheless, the timely infusion of funds by the promoters in their personal capacity or group companies or through Shri Bajrang Power & Ispat Limited, to support the liquidity in the company will remain a key rating sensitivity factor.

>Low offtake risk due to presence of long term Power Purchase Agreement (PPA) with Haryana Power Purchase Centre (HPPC)

IAHEPL has set up 36 MW hydel power plants in Chamba District of Himachal Pradesh. The company has entered into long term PPA with HPPC for the entire supply of 36 MW hydel

power energy at the fixed tariff of Rs.4.50/unit for the period of 35 years. The company achieved average plant load factor (PLF) of ~53 percent for the FY2021. The presence of a long term fixed tariff agreement, thus, mitigates the offtake risk and provides long term revenue visibility. Although the company remains exposed to single revenue-counterparty carrying credit risks.

Acuité believes that the company will continue to benefit over medium to long term owing to steady revenue under PPA agreement.

Weaknesses

> Susceptibility to regulatory risk and changes in the credit profile of HPPC

The company is exposed to regulatory risks associated with tariff rates and changes in government policies. The tariff for hydel power projects of the company is determined as per CERC norms that are revised every five years. The latest tariff norms have been notified in 2019 for FY2020-24, which provides visibility of regulatory norms for the period. However, in case stringent norms are finalised in the future the company's profitability may be impacted.

Further, any change in terms of PPA due to events such as renegotiation of rates by HPPC will have an impact on the profitability and debt servicing metrics of the company. Also, the company is exposed to changes in the credit profile of HPPC as IAHEPL has entered into a PPA with HPPC for 35 long years. Any sharp decline in the credit profile of HPPC could impact its ability to meet the operational or financial commitments, which in turn could impact the cash flows of players like IAHEPL. Hence, any major change in the credit profile of HPPC will remain a key rating sensitivity.

> Hydrological risks associated with run-of-the-river power generation

The operations of hydro power plants are largely dependent on the monsoon and the spread of the monsoon. As the project being run-of-the river, well spread monsoon is expected to support in higher unit generation. The project receives major rainfall during the period June to September with peak plant load factor (PLF) of about ~99 percent during July and low PLF of 15-20 percent during December to March. IAHEPL's average PLF is about 53 in FY2021. Though the average PLF is better, however any adverse monsoon may severely impact the cash flows and the financial flexibility, though partly mitigated by the group's support, in case of need.

> Counterparty risk

The Company is dealing with only one customer- HPPC, which exposes it to high counterparty risk as the company has only single revenue-counterparty. Any renegotiation or other changes in the agreement which could reduce the offtake would affect the revenues of the company adversely. However, the risk is mitigated to an extent on account of track record of regular realisation of receivables leading to comfortable realization rate of ~95.64% of the total billed work. The realization rate is high because as per signed agreement HPPC is entitled to 2% rebate, if they make the payment within 7 days. Any adverse movement in the financial profile, as well as liquidity position of HPPC, could lead to delay in realisation of receivables.

Assessment of Adequacy of Credit Enhancement

Shri Bajrang Power and Ispat Ltd, the holding company of IAHEPL, has issued corporate guarantee against the term loans availed by IAHEPL. Also, IAHEPL has been supported through equity/ unsecured loans from group companies whenever required. Further, The company has to maintain three months DSRA which is equivalent to 3 months of interest and principal repayment of the debt facilities. Moreover, an escrow account along with a TRA agreement (Trust and Retention agreement) is to be maintained which ensures a strong waterfall mechanism ensuring timely servicing of debt.

Rating Sensitivities

- >Improvement in power generation
- >Timely receipt of payments from HPPC

Material covenants

- > The Borrower shall at all times during the currency of the facility maintain a Debt Service Reserve (DSRA) amount equivalent to debt service requirements of a lender to cover

principal and interest payments of the ensuing 3 months.

> The Borrower shall maintain Trust and Retention Account (TRA) prior to disbursement to the satisfaction of lender into which all the funds drawdown, receivables and any other realizations from the project whatsoever, shall be deposited. The same shall be utilised/applied in a manner and priority stipulated in the Trust and Retention Account Agreement.

> 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. 25.70 crore for FY2021 as against Rs. 10.31 crore of repayment obligations for the same period. The company has unencumbered cash and bank balances of Rs. 13.02 crore as on 31st March 2021. The current Ratio stood at 2.18 times as on 31 March 2021 as against 0.40 in the previous year. A support can also be expected from its Group entity under the corporate guarantee. Also, after the refinancing from IREDA the company has been able to reduce the yearly debt repayment from Rs. ~31.00 crore to Rs. ~10.00 crore. Therefore, IAHEPL's liquidity profile is expected to be adequate over the medium term on back of takeover of the loans by IREDA which will in turn decrease the annual interest and debt repayment obligations and support from the Group.

Outlook: Stable

Acuité believes that IAHEPL will maintain a 'Stable' outlook on account of the low off take risk arising due to the enforcement of the Power Purchase Agreements (PPA) and support from the group. The outlook may be revised to 'Positive' in case of higher than expected PLF leading to higher cash accruals. Conversely, the outlook may be revised to 'Negative' in case of any significant drop in power generation levels, or any significant delay in receivables or any unplanned debt funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	77.90	79.81
PAT	Rs. Cr.	9.25	(2.73)
PAT Margin	(%)	11.87	(3.42)
Total Debt/Tangible Net Worth	Times	2.03	2.15
PBDIT/Interest	Times	1.79	1.48

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

CARE, vide its press release dated July 23, 2021 had denoted the rating of IA Hydro Energy Private Limited as 'CARE BB-/CARE A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. .

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>
- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History: Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Renewable Energy Development Agency Ltd. (IREDA)	Not Applicable	Term Loan	Not available	Not available	Not available	225.00	ACUITE BBB+ CE Stable Assigned

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About Acuité Ratings & Research

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