

Press Release

Pioneer Genco Limited

October 11, 2022

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	170.00	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	170.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB** '(to be read as **ACUITE t riple B**) to the Rs 170 Cr bank facilities of Pioneer Genco Ltd (PGL; part of Pioneer Group). The outlook is '**Stable**'.

Rationale for the rating assigned

The rating assigned favorably factors in its experienced management, established track record of operations and extensive experience of the management hydro power management and diversification in customer profile rating , however is constrained by geographical concentration of risk, climatic risk and counter party risk. Stable generation and maintenance of receivable cycle will continue to remain key rating sensitivities.

About Company

Pioneer Genco Limited - Pioneer Genco Limited was incorporated in 2001, Its own a 2x24.75MW small hydro power plant in Hyderabad. Mr Satish Reddy Katta, Mr Sailesh Reddy, Mr Deepthi Reddy Puttam Reddy, Mr Ramesh Reddy Puttamreddy are the Directors of Pioneer Genco Limited. Unit one is located on cauvery river and unit two is located on Krishna river. Both the plants have long term agreement with BESCOM.

About the Group

Pioneer Power Corporation limited was incorporated in 2002, Its own a 2x24.75MW small hydro power plant in Hyderabad. Mr Venkat Lakshmireddy Puttamreddy, Mr Raghavareddy Kurapati, Mr Venkata Divya Priyanka Puttamreddy, Mr Bathena Lakshmi Shruthi Reddy are the Directors of Pioneer Power Corporation limited. Unit one is located on Cauvery river and Unit 2 is located on Krishna river. Unit one has long term PPA with BESCOM and Unit two has multiple short term PPAs with reputed companies includinf Banglore international airport, Ultra Tech cements, Mylan labs Ltd, Shahi exports pvt ltd etc.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated business and financial risk profile of Pioneer Power Corporation Ltd and Pioneer Genco Ltd referred as "Pioneer Group" to arrive at the rating. The consolidation is in the view of common management, identical business line and inter company linkage.

Key Rating Drivers

Strengths

Extensive experience of the management through the larger Penna Group

Pioneer group is part of larger Penna group, incorporated in 1991 and promoted by Mr. Pratap Reddy who also acts as a managing director for the Pioneer Group

Penna Group is a conglomerate with a presence in various industries such as cement manufacturing, power generation, aluminum extraction, constructions and hospitality businesses. Penna group has provided shortfall guarantee for pioneer group and Penna Group's flagship company Penna Cement Ltd (ACUTE AA-) has pledged its shares as a security guarantee to Pioneer group.

Long term PPAs provide for cash flow visibility over the medium term

Pioneer group operates four hydro power plants with the capacity of 24.75 MWs each with the combine capacity of 99 MWs. Unit 1 of PPCL and unit 2 of PGL are located on Cauvery river and Unit 2 of PPCL and Unit 2 of PGL are located on Krishna river. Unit 1, Unit 2 of PGL and unit 1 of PPCL with combine capacity of 74.25 MWs has long term PPA with Bangalore Electricity Supply Company (BESCOM) and Unit 2 of PPCL with the capacity of 24.75 MWs has short term PPAs with other third parties. PPAs with BESCOM is fixed priced long term PPAs with price range of Rs. 2.8-3.41/kwh, whereas short term PPAs with third parties are at price range of 4.39/kwh. This substantially mitigates demand and price risk associated with the projects ensuring cash flow visibility for medium and long term.

Stable operational track record

Two projects on Cauvery river namely PPCL unit 1 and PGL unit 1 recorded PLF level of 65.9% and 58.04% respectively in FY22 against 54.71% and 47.15% in FY21. Similarly, projects on Krishna river (erstwhile KHEL and Laxmi Jalavidyut) namely PPCL unit 2 and PGL unit 2 recorded PLF level of 30.30% and 19.12% respectively in FY22 against 31.15% and 29.17% in FY21. Fall in PLF of PGL unit 2 is due to failure of few excitation panels and management has confirmed that the repairs have been carried out and plant is fully operational. Average PLF for past 3 years for PGL unit 1 and PPCL unit 1 is at 48.34% and 57.66%. For PGL unit 2 and PPCL unit 2 average PLF for past 3 years stood at 22.15% and 28.45%. Improved power generation is primarily attributable to good rainfall in the catchment area.

Timely realization of receivable from BESCOM and other counter parties

The Group has been able to receive its receivable from BESCOM and other third parties in timely manner and this has been reflected in overall receivable days which stood at 62 days as on March 31st 2022. Going forward group's ability to maintain its receivable cycle would be key rating sensitivity.

Weaknesses

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

Run-of-the-river power is intrinsically an unstable source of power, as there is little or no capacity for water storage. However, Pioneer group has mitigated this risk to a degree by the construction of a barrage. The construction of the barrage ensures adequate water supply to generate power for minimum 3-4 hours even during lean season of the year. However, the project primarily depends on adequate flow of river water and is dependent on well spread monsoon to support higher unit generation. The project area receives major rainfall during the period from June to November with peak plant load factor (PLF) of about 100 percent in

August and low PLF of 7-8 percent in January to March. Cauvery river projects' average PLF nevertheless, has been about 50 percent for 6 months of FY2022. Since, revenue is entirely dependent on generation, absence of or volatile power generation in certain months may adversely impact the cash flows and financial flexibility. However, this risk is offset to some extent by the support available from Penna group.

Counter Party Risk

Although group has long term PPAs with BESCOM and other third parties with a fixed tariff rate, counter party risk is evolved over period of time and with increase in receivable cycle in last fiscal. Any further stretch might have negative impact on operations of the group and could present liquidity issues in coming times.

ESG Factors Relevant for Rating

Renewable energy projects are typically considered environmentally friendly, thereby contributing to the reduction of greenhouse gases (GHGs) including carbon emissions. Hydro power is an older renewable energy technology that contributes significantly to global power generation, and is used for baseload electricity generation, replacing traditional baseload sources such as coal and nuclear power.

However, hydro power projects involving construction of dams are large, require years of construction, involve massive deforestation, divert river flow, and affect local communities. Such large land use can potentially alter the ecosystem and hurt the environment. The run-of river hydro power plants, because of their lack of large reservoirs have less environmental impact. However, it disrupts the longitudinal connectivity by fragmenting the river. Also, the consequences of climate change can adversely impact power generation from these sustainable sources. The changes can cause greater variability in the water flows and river levels. Ensuring resilience to climate change risk may require future adaptation to relevant technologies, thereby increasing overall maintenance costs.

Rating Sensitivities **Positive**

- Sustainable improvement in the scale of operations
- Sustainable improvement in Profitability, Leverage and Solvency position of the company

Negative

- Any deterioration in PLF.
- Any absence of timely support from parent group.
- Any deterioration in Revenue profile and leverage position

Material Covenants **None**

Liquidity Position **Adequate**

- Adequate net cash accruals vis-à-vis its repayments obligations over the medium term, Group is expected to generate net cash accruals of Rs.48.51 to 50 Cr against its repayments of Rs.26.60 to 45.17 Cr each year.
- Presence of a DSRA providing cushion in terms of internal liquidity ~ mitigates counterparty payment risk and seasonality risk.
- All the receipts of discoms are routed through TRA account.

Outlook: Stable

Acuité believes that the outlook of Pioneer group will remain 'Stable' over the medium term on account of the promoter's extensive experience and established presence in the pharma industry. The outlook may be revised to 'Positive' in case the company registers significant growth in revenue and profitability while effectively managing its working capital cycle. The outlook may be revised to 'Negative' in case of significantly lower than expected net cash accruals or lengthening of the working capital cycle; thereby resulting in deterioration in the financial risk profile or liquidity position of the company.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	123.33	113.44
PAT	Rs. Cr.	41.60	27.96
PAT Margin	(%)	33.73	24.65
Total Debt/Tangible Net Worth	Times	0.40	0.47
PBDIT/Interest	Times	2.68	2.13

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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	170.00	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

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