



Press Release
PIONEER GENCO LIMITED
March 15, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	179.73	ACUITE BBB Reaffirmed Rating Watch with Negative Implications	-
Total Outstanding Quantum (Rs. Cr)	179.73	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.179.73 Cr. bank facilities of Pioneer Genco Limited (PGL). The rating now is under watch with Negative Implications.

Reasons for rating watch:

The rating is placed on watch with negative implications mainly on account of uncertainty in generation of adequate Plant Load Factor (PLF) of the hydro plants of both Pioneer Genco Limited (PGL) and Pioneer Power Corporation Limited (PPCL) as projects are located on Cauvery and Krishna river streams which has observed lower rainfall during current FY. Lower PLF could lead to significant deviations in Acuite's projections for FY24 & FY25 which may lead to lower debt service coverage ratio (DSCR).

Acuite will closely monitor the operations and PLF of the hydro projects in Pioneer Group and deterioration of the PLF would impinge a negative bias on the ratings.

About Company

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 Group consist of Pioneer Genco Limited (PGL) and Pioneer Power corporation Limited (PPCL) which are subsidiaries to Penna group. Pioneer group engaged in hydel power generation. The group has 4 small hydro power plants with the generation capacity of 24.75 Mega Watt (MW), unit 1 of PGL and unit 1 of PPCL were located on Cauvery river and unit 2 of PGL and unit 2 of PPCL were located on Krishna river in Karnataka region. Unit one of PPCL has long term PPA with BESCOM and Unit two has multiple short term PPAs with reputed companies including Bangalore international airport, Ultra Tech cements, Mylan labs Ltd, Shahi exports Pvt Ltd etc. While both units of PGL has long term PPA's with BESCOM.

Unsupported Rating

Not Applicable

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

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, aluminium extraction, constructions and hospitality businesses. Penna group has provided shortfall guarantee for Pioneer group and Penna Group's flagship company Penna Cement Ltd has pledged its shares as a security guarantee to Pioneer group.

Long term PPAs with BESCO providing 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, 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 (BESCO) and Unit 2 of PPCL with the capacity of 24.75 MWs has short term PPAs with other third parties. PPAs with BESCO are at fixed price of Rs. 2.8 per unit, whereas short term PPAs with third parties are at average price of Rs. 4.45 per unit. This substantially mitigates demand and price risk associated with the projects ensuring cash flow visibility for medium and long term. PPA between BESCO and PPCL unit 1 will be expiring by 2026. The group is in plans of extending the PPA with BESCO for 10 more years at a higher revised price per unit.

Timely realization of receivable from BESCO and other counter parties:

The company has strong payment track record from its counterparty-BESCO, thereby, leading to low counterparty risk. The company receives its payments from BESCO within 60 to 120 days and the payments are routed through a Trust and retention account (TPA). Presence of TRA ensures that 50 percent of the amount received goes towards repayment and balance towards other expenses. The overall receivable days stood at 48 days as on March 31, 2023. 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 of 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 project's average PLF nevertheless, has been about 50 percent for 6 months of FY23. 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.

Counter Party Risk

Although group has long term PPAs with BESCO 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. Elongation of receivable cycle 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

- Movement in Profitability, Leverage and Solvency position of the company.
- Lower generation of power units leading deterioration of liquidity position.

Liquidity position: Adequate

Pioneer group's liquidity is adequate marked by sufficient net cash accruals (NCA's) vis-à-vis its repayments obligations over the medium term. Group is expected to generate net cash accruals of Rs.90 to 96 Cr against its repayments of Rs.45.00 to 48 Cr in the medium term. Presence of a Debt Service Reserve Account (DSRA) providing cushion in terms of internal liquidity ~ mitigates counterparty payment risk and seasonality risk. Acuite draws comfort from presence of DSRA equivalent to 1 quarter deposited in a Trust and retention Account Agreement (TRA) account. All the receipts from BESCO are routed through TRA account which ensures that 50 percent of the amount received goes towards repayment and balance towards other expenses. This ensures timely repayment

Outlook: Not applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	138.28	123.30
PAT	Rs. Cr.	45.89	33.77
PAT Margin	(%)	33.18	27.39
Total Debt/Tangible Net Worth	Times	0.52	0.40
PBDIT/Interest	Times	2.53	2.75

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

Not applicable

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.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

In order to inform the investors about complexity of instruments, Acuite 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
07 Sep 2023	Term Loan	Long Term	159.73	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	10.27	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	9.73	ACUITE BBB Stable (Assigned)
11 Oct 2022	Term Loan	Long Term	170.00	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
Indian Renewable Energy Development Agency Ltd. (IREDA)	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Sep 2033	Simple	159.73	ACUITE BBB Reaffirmed Rating Watch with Negative Implications
Indian Renewable Energy Development Agency Ltd. (IREDA)	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Mar 2029	Simple	20.00	ACUITE BBB Reaffirmed Rating Watch with Negative Implications

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

- Pioneer Genco Limited.
- Pioneer Power corporation Limited.

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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.

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