



Press Release
PIONEER POWER CORPORATION LIMITED
September 07, 2023
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	9.72	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	230.00	ACUITE BBB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	239.72	-	-

Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE BBB**' (read as **Acuite t riple B**) on Rs.230.00Cr bank facilities of Pioneer Pioneer Power Corporation Limited (PPCL). The outlook is **Stable**.

Acuite has assigned its long term rating of '**ACUITE BBB**' (read as **ACUITE t riple B**) on additional Rs.9.72Cr bank facilities of Pioneer Genco Limited. The outlook is **Stable**.

Rationale for rating reaffirmation:

The rating reaffirmation factors in the stable operating performance of Pioneer Group marked by improved revenue, moderate financial risk profile and stable operating margins. The group's revenue has recorded ~12 percent YoY growth during FY23 (Prov) as it stood at Rs.138.28Cr as against Rs.123.30Cr in FY22. The group has achieved average gross Plant load Factor (PLF) of 43 percent during FY23. The operating margins stood at 88.99 percent during FY23 (Provisionals) against 88.57 percent in previous year. The group has several Power Purchase Agreements (PPA) with Bangalore Electricity Supply Company Limited (BESCOM) and third parties which ensures stable operating revenue and margins. The financial risk profile is moderate marked by moderate net-worth position, capital structure and comfortable coverage indicators. The ratings are partially offset by the hydrological risk associated with run-of-the river power generation and counter party risk. Going forward the group's ability to sustain the similar Plant Load Factor (PLF) will be a key monitorable.

About Company

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 including Bangalore international airport, Ultra Tech cements, Mylan labs Ltd, Shahi exports pvt ltd etc.

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.

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, 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 BESCOM providing 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, 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 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 BESCOM and PPCL unit 1 will be expiring by 2026. The group is in plans of extending the PPA with BESCOM for 10 more years at a higher revised price per unit.

Stable operational track record:

Two projects on Cauvery river namely PPCL unit 1 and PGL unit 1 recorded PLF level of 81.59 percent and 57.40 percent respectively in FY23 against 65.9 percent and 58.04 percent in FY22. Similarly, projects on Krishna river (erstwhile KHEL and Laxmi Jalavidyut) namely PPCL unit 2 and PGL unit 2 recorded PLF level of 33.45 percent and 25.92 percent respectively in FY23 against 30.30 percent and 19.12 percent in FY22. Improved power generation is primarily attributable to good rainfall in the catchment area.

However, the power generation in Q1FY24 remained relatively lower, the plants in PGL and PPCL have generated an average PLF of 12.83 percent during the period compared to average PLF of 33.38 percent during the Q1FY23. Acuite believes that the group's ability to increase its PLF and subsequently power generation during the year will be a key rating monitorable.

Timely realization of receivable from BESCOM and other counter parties:

The company has strong payment track record from its counterparty-BESCOM, thereby, leading to low counterparty risk. The company receives its payments from BESCOM 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 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. 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

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Rating Sensitivities

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

All Covenants

None

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: 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. The outlook may be revised to 'Positive' in case the company registers significant growth in Plant load factor (PLF) leading to improvement in revenue and profitability. The outlook may be revised to 'Negative' in case of any decline in Plant Load factor (PLF) or any significant delay in receivables leading to deterioration in liquidity position of the company.

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)

None

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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
11 Oct 2022	Term Loan	Long Term	230.00	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 Applicable	Term Loan	Not available	Not available	Not available	Simple	214.72	ACUITE BBB Stable Reaffirmed
Indian Renewable Energy Development Agency Ltd. (IREDA)	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	15.28	ACUITE BBB Stable Reaffirmed
Indian Renewable Energy Development Agency Ltd. (IREDA)	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	9.72	ACUITE BBB Stable Assigned

- GECL loan of Rs.25Cr is referred as Term loan in two instruments Rs.15.28Cr and Rs.9.72Cr

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

- Pioneer Power Corporation Limited.
- Pioneer Genco 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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