



Press Release
Pioneer Power Corporation Limited
August 02, 2024
Rating Downgraded

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|---------------------|---|----------------------|
| Bank Loan Ratings | 239.72 | ACUITE BBB- Stable Downgraded Remove from Rating Watch | - |
| Total Outstanding Quantum (Rs. Cr) | 239.72 | - | - |

Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BBB-**' (read as **ACUITE t riple B minus**) from '**ACUITE BBB**' (read as **ACUITE t riple B**) on Rs.239.72 Cr. bank facilities of Pioneer Power Corporation Limited (PPCL). The rating is removed from 'Under Watch with Negative Implications'. The outlook is '**Stable**'.

Rationale for downgrade:

The rating downgrade reflects lower than expected power generation in FY2024 and a deterioration in the liquidity profile of Pioneer Group. All hydro power plants located on both the Krishna and the Cauvery Rivers have registered a lower plant load factor due to inadequate water caused by lower rainfall. As a result, the group registered lower than expected net cash accruals, which were insufficient to meet the repayment obligations, marking the stretched liquidity position of the group in FY2024. Going forward, the improvement in power generation levels and the improvement in liquidity profile will be key monitorable.

About the 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.

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 Limited and Pioneer Genco Limited 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 BESCOM 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 (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 a fixed price of Rs. 3.20 per unit, whereas short term PPAs with third parties are at an average price of Rs. 4.50 per unit. This substantially mitigates demand and price risk associated with the projects ensuring cash flow visibility for medium and long term.

Timely realization of receivable from BESCOM and other counter parties:

The group has strong payment track record from its counterparties BESCOM and others, thereby, leading to low counterparty risk. The group receives its payments from BESCOM within 60 to 120 days and the payments are routed through a Trust and retention account (TRA). Presence of TRA ensures that 50 percent of the amount received goes towards repayment and the balance towards other expenses. PPCL unit 2, which supplies power to other third parties like Bangalore International Airport and various other companies as part of a short term PPA has a strong payment track record, where payment is received within 15 to 20 days. Going forward group's ability to maintain its receivable cycle would be key rating sensitivity.

Weaknesses

Inadequate rainfall resulted in lower-than expected PLF in FY2024.

In FY2024, due to insufficient water for power generation, the average plant load factor (PLF) of the plants located on the Cauvery River (PPCL unit 1 and PGL unit 2) declined to 42.56 percent and 33.30 percent, respectively, compared to 81.59 percent and 57.40 percent registered in FY2023. Similarly, the average PLF of the plants located on the Krishna River (PPCL unit 2 and PGL unit 2) also declined to 9.20 percent and 5.39 percent in FY2024, respectively, compared to 33.45 percent and 25.92 percent in FY2023. The lower power generation is primarily due to inadequate rainfall during the year in the catchment area. The average PLF for Q1 of FY2024 stood at ~16 percent. However, ACUTE expects the PLF to improve in the current year due to heavy rainfall being received from the start of July 2024.

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. 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 has 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

- Improvement in power generation leading to improvement in financial risk profile and liquidity of the group.
- Significant delay in receiving payments from beneficiaries, leading to deterioration in liquidity profile.

Liquidity position: Adequate

In FY2024, Pioneer group's liquidity position was adequate as reflected from the timely repayment of debt obligations, despite insufficient net cash accruals against the debt repayment obligations. The group had registered NCA's of ~Rs.56 Cr. during FY2024, which was insufficient to repay Rs.78.55 Cr. debt obligations for the same period. However, realization of significant portion of pending debtors has helped in timely repayment of debt during the year. Going forward, pioneer group is expected to generate net cash accruals in the range of Rs.80 to 90 Cr, which would be sufficient to meet the debt repayment obligation range of Rs.78.00 Cr. to 86 Cr. in the medium term. Furthermore, presence of a DSRA equivalent to 1 quarter of principal and interest provides cushion towards liquidity. The group is expected to create balance portion of DSRA in the current year which will further strengthen the liquidity. Besides, all the receipts of BESCOMs are routed through TRA account, which ensures that 50 percent of the amount to be prioritized towards repayment and balance towards other expenses, thus, ensuring 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 group 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 further deterioration in liquidity position of the group.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 24 (Provisional) | FY 23 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income | Rs. Cr. | 67.59 | 138.29 |
| PAT | Rs. Cr. | (7.17) | 37.62 |
| PAT Margin | (%) | (10.61) | 27.20 |
| Total Debt/Tangible Net Worth | Times | 0.41 | 0.46 |
| PBDIT/Interest | Times | 1.30 | 2.52 |

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>
- 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>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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 |
|-------------|--------------------------------|-----------|-----------------|---|
| 15 Mar 2024 | Term Loan | Long Term | 214.72 | ACUITE BBB (Reaffirmed and Rating Watch with Negative Implications) |
| | Term Loan | Long Term | 25.00 | ACUITE BBB (Reaffirmed and Rating Watch with Negative Implications) |
| 07 Sep 2023 | Term Loan | Long Term | 214.72 | ACUITE BBB Stable (Reaffirmed) |
| | Term Loan | Long Term | 15.28 | ACUITE BBB Stable (Reaffirmed) |
| | Term Loan | Long Term | 9.72 | ACUITE BBB Stable (Assigned) |
| 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 avl. / Not appl. | Term Loan | Not avl. / Not appl. | Not avl. / Not appl. | 30 Sep 2033 | Simple | 214.72 | ACUITE BBB- Stable Downgraded Remove from Rating Watch (from ACUITE BBB) |
| 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 | 25.00 | ACUITE BBB- Stable Downgraded Remove from Rating Watch (from ACUITE BBB) |

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

| Sr.No. | Company Name |
|--------|-----------------------------------|
| 1 | Pioneer Genco Limited |
| 2 | Pioneer Power Corporation Limited |

Contacts

| Analytical | Rating Desk |
|---|---|
| Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Katta Akhil Analyst-Rating Operations Tel: 022-49294065 akhil.katta@acuite.in | Varsha Bist Associate Vice President-Rating Administration Tel: 022-49294011 rating.desk@acuite.in |

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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