

## Press Release

Magpie Hydel Construction Operation Industries Private Limited

January 18, 2023



## Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	120.00	ACUITE BBB   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	120.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on Rs.120.00 Cr bank facilities of Magpie Hydel Construction Operation Industries Pvt Ltd (MHCOIPL). The outlook is '**Stable**'.

### Rationale for rating assigned

The rating assigned reflects the significant track record of the company and extensive experience of the promoters in hydel power generation sector. The rating also draws comfort from the moderate growth in the scale of operations reflected through a compounded annual growth rate (CAGR) of 17.6 percent over the last three years through FY22. The growth in operations is facilitated through healthy plant load factor coupled with remunerative tariffs on exchange as well as through bilateral arrangements. Acuite believes that the prevalence of higher coal prices is likely to keep the power tariffs in exchanges buoyant and conducive for the company to generate higher surpluses over its cost of generation. As a result the financial risk profile of the company is expected to remain above-average over the medium term. These strengths are partly offset by the absence of a long term power purchase arrangement which adds to uncertainty of revenue generation, risk of under recovery of fixed costs in the event of any decline in power demand and susceptibility of power generation to hydrological risk.

### About the Company

Incorporated in 2003, Magpie Hydel Construction Operation Industries Pvt Ltd (MHCOIPL) is engaged in generation of hydroelectric power. The company is an independent power producer in the union territory of Jammu and Kashmir. The company has three hydro power plants in Kashmir with of with total generation capacity of 35 MW. Sale of power is made through bilateral agreements or through exchange. MHCOIPL is promoted by Mr. Nazir Mir, Mr. Mudasir Mir and Mrs. Masooda Mir who have over two decades of experience in constructing and operating hydel power projects.

### Analytical Approach

Acuité has taken a standalone approach to arrive at the rating of Magpie Hydel Construction Operation Industries Pvt Ltd (MHCOIPL)

## **Key Rating Drivers**

### **Strengths**

#### **Established track record of operations and experienced management**

Incorporated in 2003, Magpie Hydel Construction Operation Industries Pvt Ltd (MHCOIPL) is a part of M & Co Group which is engaged in various segments like construction of hydel power plant and generation of power. The company is promoted by Mr. Nazir Mir, Mr. Mudasir Mir and Mrs. Masooda Mir who have over two decades of experience in constructing and operating hydel power projects. The company sells the power generated to open market customers through exchanges or through bilateral agreements. The management through its other associates is also engaged in civil construction and hydel power generation in other areas of J&K.

Acuité believes that the experienced management and its relationships with customers are expected to support the regular addition of new clientele under its bilateral tie-ups and a healthy off-take of generated power.

#### **Healthy operating performance**

MHCOIPL has recorded a healthy operating performance over the last three years marked by a healthy plant load factor (PLF) and improvement in scale of operations. The company operates three power plants at Poonch, Bandipora and Tangmarg with total generation capacity of 35 MW with stable PLF over the last three years. In FY22, the Poonch and Bandipore power plant achieved PLF of more than 40 percent and Tanmarg power plant achieved PLF of 29 percent which compares well with industry benchmarks.

The company sells power to open market customers where the prices are market determined or through bilateral agreements. The total operating income of the company stood at Rs.60.45 Cr in 1HFY23 as against Rs. 69.92 Cr in FY22 and Rs. 58.21 Cr in FY21. The improvement in the scale of operations are driven by surge in power prices over the exchange on account of higher coal prices.

Acuite believes that despite slight moderation in the coal prices, open market power tariffs are likely to remain over the medium term on account of an overall power deficit in India.

#### **Above-average financial risk profile**

The financial risk profile of MHCOIPL is above-average marked by healthy network, low gearing and above-average debt protection metrics. The tangible network of the company stood at Rs. 56.69 Cr as on 31<sup>st</sup> March 2022 as against Rs. 30.61 Cr as on 31<sup>st</sup> March 2021 and Rs. 21.69 Cr as on 31<sup>st</sup> March, 2020. Strengthening of network is on account of increase in accretion of profit to reserves. The company had followed a moderately aggressive financial policy in the past as reflected by peak gearing levels of around 8.55 times as on March 31, 2020, which is typical for a hydro power generating unit in its initial years of operations. The current gearing levels have moderated significantly to around 2.6 times as on March 31, 2022. Acuite believes that the gearing levels is likely to further moderate in the near to medium term on account of repayment of existing term loans and increase in accretion of profits to reserves. The debt protection metrics of the company remained comfortable with DSCR at 1.18 times in FY22 as against 1.23 times in FY21. The interest coverage ratio stood at 4.45 times in FY22 as against 2.57 times in FY21.

Acuité believes the financial risk profile of MHCOIPL would remain above-average over the medium term on account of healthy scale of operations and repayment of existing term loans.

### **Weaknesses**

**Susceptibility to fluctuation in power prices and uncertainty of offtake**

The company sells powers to open market customers where the power prices are market determined. The operating income and profitability of the company is susceptible to the volatility in the power prices in open market. Further, the company also sells power through bilateral agreements which are short term in nature, usually for 1-3 months. The ability of the company to acquire such bilateral agreements on a recurring basis will remain a key rating sensitivity.

### **Susceptibility of power generation to hydrological risks**

The hydro power plants of MHCOIPL are located in the union territory of Jammu and Kashmir and are not able to generate to their full capacity on account of low hydrology during the month of September to March. The peak PLF at all the three plants combined stood in the range of 70-80 percent from March to September and the lowest PLF during October to February stood at 15-25 percent. The generation is highly dependent on adequate flow of water from melting of ice and rainfall. Any adverse natural calamity in the location of the power plant may adversely impact the generation levels, thereby leading to stretched liquidity and financial flexibility.

### **Rating Sensitivities**

- Any significant deterioration in generation levels
- Any decline in power tariff due to lower power demand

### **Material covenants**

None

### **Liquidity Position Adequate**

Liquidity of the company is adequate marked by improving net cash accruals to meet its debt service obligations and efficient working capital operations. Net cash accruals of the company are stood at Rs. 40.27 Cr in FY22 as against Rs.32.10 Cr. Liquidity of the company is further supported by the efficient working capital operation of the company. The debtor collection period of the company stood at 12 days in FY22 as against 9 days in FY21 and 10 days in FY20. MHCOIPL maintained cash and bank balance of Rs.31.88 Cr as on 31st March, 2022.

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against its debt service obligations.

### **Outlook: Stable**

Acuité believes that the outlook on the company will remain 'Stable' over the medium term on account of the entity's track record, above-average financial risk profile and established operational track record. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue most likely as a result of further augmentation and stabilization of generation capacity. Conversely, the outlook may be revised to 'Negative' in case of sharp deterioration in the PLF or tariff levels leading to deterioration of the financial risk profile; particularly its liquidity.

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	69.92	58.21
PAT	Rs. Cr.	26.43	9.40
PAT Margin	(%)	37.81	16.15
Total Debt/Tangible Net Worth	Times	2.60	5.29
PBDIT/Interest	Times	4.45	2.57

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

None

## 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>

## 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](http://www.acuite.in).

## Rating History:

Not Applicable

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
J&K Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	19.39	ACUITE BBB   Stable   Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	3.86	ACUITE BBB   Stable   Assigned
J&K Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.24	ACUITE BBB   Stable   Assigned
J&K Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	77.31	ACUITE BBB   Stable   Assigned
J&K Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	14.20	ACUITE BBB   Stable   Assigned

## Contacts

Analytical	Rating Desk
Deepti Bhandarkar Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:deepti.bhandarkar@acuite.in">deepti.bhandarkar@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### 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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