February 25, 2022

Poysha Power Generation Pvt Ltd: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund-based Term Loan	7.50	40.00	[ICRA]A- (Stable); reaffirmed/assigned
Total	**7.50**	**40.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's reaffirmation of the rating assigned to Poysha Power Generation Pvt Ltd (PPGPL) factors in the availability of long-term power purchase agreements (PPAs) with multiple commercial & industrial (C&I) customers for 27.18-MW wind power capacity under group captive mechanism at a gross tariff of Rs 5.8 per unit. Under the group captive mechanism, it has tied up 22.01 MW with 20 customers for 15 years and 5.17 MW capacity with four customers for 3-5 years. The remaining 7.5-MW wind power capacity has been tied-up with Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) at a tariff of Rs 2.63 per unit for 20 years. ICRA notes that the tariff offered by PPGPL to the group captive customers is at a discount to the grid tariff charged to C&I customers, reflecting the competitiveness of the power generated by the company. The company proposes to move the 7.5-MW asset from TANGEDCO to group captive consumers, considering the delays in receiving payments and has secured the approval for the same from the utility.

ICRA takes note of the additional Rs. 40-crore debt funding availed by the company in FY2022, which would increase the leverage level and moderate the debt coverage metrics for the company, going forward. The company is deploying Rs. 20 crore from this loan to acquire new assets and the balance Rs. 20 crore has been extended to its Group company - Rugby Renergy Private Limited (RRPL) - to prepay its relatively high cost long-term debt to reduce the interest cost at the group level. ICRA notes that the Rs. 20-crore debt is expected to be prepaid if the company is not able to deploy the funds to acquire new assets by June 2022.

Further, the company's debt coverage metrics are expected to remain comfortable with DSCR at ~1.4x in the near to medium term, despite the additional debt availed in FY2022, supported by the moderate leverage level and satisfactory generation performance. Also, RRPL is expected to extend support to PPGPL in case of any cash flow mismatch in servicing its debt obligations. The company is expected to maintain an additional liquidity of Rs. 11 crore at all times in the form of cash balances or liquid investments to meet any unforeseen requirements or for acquisitions, if any. The rating also continues to favourably factor in the experience of the promoters in the renewable energy business.

However, the rating remains constrained by the ageing of the assets—34% of the assets crossed 25 years of life and the balance assets have an operating age ranging from 10-25 years, which exposes the company to increased maintenance costs, risk of equipment failure and subdued PLF levels. The rating is also constrained by the exposure of the company's cash flows and debt protection metrics to seasonality and variations in wind power density across the years, given the single part and fixed nature of the tariff under the PPAs. While the generation performance improved in FY2021 over FY2020 supported by repair works taken for one of the wind assets, the revenues declined owing to the decline in income from the sale of renewable energy certificates (RECs) because of the regulatory stay on trading of RECs. With the resumption of trading of RECs in the current fiscal and the improved generation performance, ICRA expects the revenues and profitability of PPGPL to improve in FY2022. Further, ICRA also takes note of the weak exit clause in the PPAs with group captive customers, wherein either party can exit the agreement by serving a notice of six months. This clause exposes the company to the risk of termination of PPA before the expiry, which could eventually affect its revenues and cash flows. Further, PPGPL remains exposed to the credit risk profile of a relatively weak state utility, TANGEDCO, which is the offtaker for ~20% of the company's installed capacity. Further, though the payments are timely from the group captive customers so far, the company remains exposed to the weak-to-moderate credit risk profile of these customers. Any delay in payments by these customers will stretch the company's receivable cycle and in turn adversely impact its overall liquidity profile. Also, for the group captive capacity, the company remains exposed to any changes in open-access charges and revision in group captive policy. The rating also factors in the regulatory challenges of implementing the scheduling and forecasting framework for the wind power projects in Tamil Nadu, given the variable nature of wind energy generation.

The Stable outlook reflects the company's steady revenue visibility by virtue of its PPAs, timely collections from the group captive customers and a comfortable liquidity position.

Key rating drivers and their description

Credit strengths

Long-term PPA mitigates offtake and tariff risks – The company has entered a long-term PPA with 24 captive customers for 27.18 MW of capacity (15-year tenure for 20 customers aggregating to 22.01 MW and 3-5-year tenure for four customers aggregating to 5.17 MW). Further, the remaining 7.5 MW has been tied up with TANGEDCO at a tariff of Rs 2.63 per unit for 20 years. The applicable tariffs for 27.18 MW is Rs 5.8 per unit (gross), which is at a discount to the grid tariff charged to C&I customers, and for 7.5 MW is Rs 2.63 per unit, reflecting the competitiveness of the power generated by the company. The residual tenure of the PPAs remains higher than the balance debt repayment tenure.

Moderate leverage, healthy debt coverage metrics and comfortable liquidity - While the additional Rs. 40-crore debt availed in FY2022 has increased the company's leverage level, it remains moderate with total debt to OPBITDA expected to remain below 3.5x in FY2022 and further reduce to less than 3.0x in FY2023. The leverage ratio would improve once the additional debt is deployed in new assets. Also, the debt coverage metrics are expected to remain comfortable with DSCR at ~1.4x in the near to medium term. Further, the company proposes to maintain a liquidity of at least Rs. 11.00 crore at all times to meet any exigencies.

Timely payments from captive customers - The payments from PPGPL's captive customers have been realised in a timely manner historically, with an average collection cycle of 9-12 days in the last three to four years. Timely realisation of monthly payments from offtakers supports the company's liquidity profile. However, payments from TANGEDCO are received with a delay of 7-8 months.

Long experience and established presence of promoters in renewable energy business – RRPL is promoted by the members of the Goyal family, who have been present in the renewable energy business over the last two decades. The Group at present is operating wind power plants with cumulative capacities of ~70 MW set up across multiple locations.

Credit challenges

Ageing of assets exposes company to higher operating risks – Out of the 34.68 MW operating capacity, ~34% of the assets have crossed 25 years of operating period, 1% of the assets have aged between 20 years and 25 years, 43% of the assets have aged between 15 years and 20 years and 22% of the assets have aged around 10 years. Therefore, the company remains exposed to the increase in maintenance costs, risk of equipment failure and subdued PLF levels.

Weak exit clause in the PPAs – The PPAs with the group captive customers are structured in such a way that either party can exit the agreement by serving a notice of six months. This exposes the company to the risk of termination of the PPAs before the expiry, which could eventually affect its revenues and cash flows. Also, for the group captive capacity, the company remains exposed to changes in open-access charges and revision in the group captive policy.

Vulnerability of cash flows to variation in weather conditions – PPGPL is entirely dependent on power generation by the wind power projects for its revenues and cash accruals, given the single-part nature of the tariff. As a result, any adverse variation in wind conditions may impact the PLF and consequently, the cash flows. This risk is partly mitigated by the moderate diversity in the asset profile.

Exposed to credit risk profile of customers - TANGEDCO is the offtaker for ~20% of the company's installed capacity, exposing it to the discom's weak credit risk profile. To mitigate this risk, the company proposes to exit the PPA with TANGEDCO and sell the power to C&I customers under the group captive mode. Further, though the payments are timely from group captive customers, the company remains exposed to the weak to moderate credit risk profile of these customers. Any delay in payments by the counterparty will stretch the company's receivable cycle and in turn adversely impact its overall liquidity profile.

Challenges associated with implementation of forecasting and scheduling regulations – The company remains exposed to regulatory challenges pertaining to the implementation of scheduling and forecasting framework for wind power projects in Tamil Nadu. This is mainly because of the limited experience of the domestic industry players in scheduling and forecasting and the variable nature of wind energy generation.

Liquidity position: Adequate

The liquidity profile of the company is adequate with the cash flow from operations of Rs. 7.5-8.0 crore over the next two years against the annual repayment obligation of Rs. 5.0-5.2 crore. Also, the company has cash balances & liquid investments of Rs. 22.4 crore, excluding DSRA of one quarter as of February 2022. Further, the company is expected to maintain free cash & bank balances and liquid investments of ~Rs. 11 crore at all times (in addition to DSRA) to meet any exigencies. Also, there is a track record of timely funding support from the group companies in case of any exigencies.

Rating sensitivities

Positive factors - The rating can be upgraded if the company is able to sustain the operating performance with PLFs remaining above the historical average, along with an improvement in the customers' credit risk profile.

Negative factors - The rating could be downgraded if any significant decline in generation or increase in receivables from the customers adversely impact the company's liquidity position. Further, any debt-funded capex or acquisition that adversely impacts the leverage and coverage metrics would be another negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Wind Power Producers
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the rated entity

About the company

PPGPL, incorporated in 1996, is a subsidiary of Poysha Power Projects Pvt Ltd (earlier a subsidiary of Goyal MG Gases Pvt Ltd or GMGGPL). Earlier, GMGGPL was the parent of PPGPL and the change has been effective since June 2017, following the

Group restructuring. Though established in 1996 with the objective of venturing into the renewable energy business, PPGPL had no major operations till 2014. In FY2015, the company acquired 9.85 MW windmill assets from GMGGPL through a slump sale agreement. The power from this plant is sold to group captive customers. Further, in February 2017, PPGPL acquired a 7.5-MW wind asset in the Theni district of Tamil Nadu from Gayatri Projects. A 20-year PPA has been signed with TANGEDO for this plant at a tariff of Rs 2.63 per unit. In April 2017, the company acquired 17.325-MW wind assets from GMGGPL through a slump sale agreement. The power from this plant is sold to group captive customers. The overall capacity of PPGPL is 34.68 MW, located across various districts of Tamil Nadu.

Key financial indicators

ACSEPL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	17.6	15.2
PAT (Rs. crore)	5.6	4.0
OPBDIT/OI (%)	67.8%	60.3%
PAT/OI (%)	31.7%	26.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.9	1.7
Total Debt/OPBDIT (times)	1.2	1.3
Interest Coverage (times)	8.0	6.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Feb 18, 2022 (Rs. crore)	Date & Rating		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					25-Feb-2022	06-Apr-2021	-	-	-
1	Term loan	Long Term	40.00	40.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan	Dec 2021	-	Jun 2029	40.00	[ICRA]A- (Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Vikram V
+91 40 4067 6518
vikram.v@icraindia.com

Pooja Goyal
+91 22 6169 3349
pooja.goyal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches