February 25, 2022

Rugby Renergy Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund-based Term Loan	40.00	27.00	[ICRA]A (Stable); reaffirmed
Long Term – Unallocated	-	13.00	[ICRA]A (Stable); reaffirmed
Total	**40.00**	**40.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's reaffirmation of the rating assigned to Rugby Renergy Private Limited (RRPL) factors in the long-term power purchase agreements (PPAs) for its 37-MW wind power capacity at fixed tariff rates with Gujarat Urja Vigas Nigam Limited (GUVNL) for 25.8 MW and with Hubli Electricity Supply Company Limited (HESCOM) for 11.2 MW, providing visibility on revenues. The rating is also supported by the strong credit profile of GUVNL (rated [ICRA]AA- (Stable) / [ICRA]A1+), which is the offtaker for ~70% of the company's capacity. ICRA further positively takes note of the tariff competitiveness of the company's wind power plants - the average PPA tariff is Rs. 3.4 per unit, which remains competitive against the average power procurement cost for the offtaker utilities. Further, ICRA factors in the diversification benefit accruing to RRPL with the wind power assets distributed across five locations in two states.

ICRA takes note of the proposed repayment by RRPL of the relatively high-cost debt availed from two of its existing lenders. At the end of FY2022, the company is expected to have external[1] term debt of ~Rs. 5.0[2] crore, reduced from Rs. 25.6 crore as of March 2021. This would improve the company's coverage metrics, going forward. The company has availed funding support from its Group company – Poysha Power Generation Pvt Ltd (PPGPL), which would enable a reduction in interest costs at the Group level. ICRA notes that RRPL is expected to support PPGPL in case of any cash flow mismatch in servicing its debt obligations. Also, the company's liquidity profile is supported by timely payments from GUVNL and presence of debt service reserve account (DSRA). The company is expected to maintain additional liquidity of Rs 10 crore at all times in the form of cash balances or liquid investments to meet any unforeseen requirements or for acquisitions, if any. This apart, the rating continues to favourably factor in the experience of the promoters in the renewable energy business.

The rating is, however, constrained by the exposure of the company's cash flows and debt protection metrics to seasonality and variation in wind power density across the years, given the single part and fixed nature of the tariff under the PPAs. The generation performance of the company witnessed a significant decline in FY2021 over FY2020 owing to a weak wind season, adversely impacting its revenues and profitability. Nonetheless, the cash accruals remained adequate in relation to the debt servicing obligations of the company. The generation performance witnessed a marginal improvement in 9M FY2022 over the corresponding period of the previous year. Further, RRPL remains exposed to the credit risk profile of a relatively weak state utility, HESCOM, which is the offtaker for ~30% of the company's installed capacity. Nonetheless, comfort is derived from the timely realisation of payments from HESCOM in FY2021 and 8M FY2022.
Also, the company remains exposed to the performance of O&M contractors like Suzlon, Vestas and Renom, wherein the generation performance may be adversely impacted in case of improper O&M practices by the contractors, given that some

[1]Excluding loans from group companies
[2]Loan availed as reimbursement towards the cost of 4.5-MW wind asset acquired in FY2020

of the company's O&M contractors have weak financial profile. Moreover, given the ageing of the assets, the company is exposed to the risk of decline in PLFs and increase in maintenance costs. The rating also factors in the regulatory challenges of implementing the scheduling and forecasting framework for wind power projects in Gujarat and Karnataka, given the variable nature of wind energy generation.

The Stable outlook reflects the company's steady revenue visibility by virtue of its long-term PPAs, a long operating track record with a diverse asset profile and timely collections from the offtakers.

Key rating drivers and their description

Credit strengths

Long-term PPAs mitigate offtake and tariff risks; superior tariff competitiveness for wind portfolio - RRPL has long-term PPAs for its entire capacity with 11.2 MW contracted with HESCOM and 25.8 MW contracted with GUVNL. The strong credit profile of GUVNL, which is the offtaker for ~70% of the capacity, lends comfort to the company. Moreover, the applicable feed-in tariffs for each of the project is well below the average power purchase cost of the buying discoms, reflecting the competitiveness of the power generated by the company. The weighted average residual PPA tenure for the company's wind assets is ~6.5 years against the balance debt repayment tenure of 5.5 years.

Asset base spread across five locations in two states and satisfactory operational performance – RRPL has an installed capacity of 37.00 MW across five locations in two states. It is operating 11.2 MW in Karnataka and 25.8 MW across four locations in Gujarat. This reduces the vulnerability of generation to location-specific issues. All the plants have a long performance track record with satisfactory generation performance. While the reported PLF for RRPL declined to 17.2% in FY2021 from 21.1% in FY2020 due to a weak wind season, the generation recovered to an extent in 9M FY2022.

Timely payments and presence of DSRA - The payments from GUVNL have been historically on time. Also, the realisation from HESCOM has improved with average debtors of 38 days for the eight months ended November 2021. Timely monthly payments from the offtakers and the presence of cash DSRA support the company's liquidity profile.

Leverage and coverage metrics comfortable; company proposes to prepay high cost which would further improve coverage metrics – The company's leverage and coverage metrics remain comfortable despite the adverse impact of lower generation in FY2021. The gearing level declined to 0.92x as of March 2021 from 1.14x as of March 2020. While the DSCR ratio declined in FY2021 owing to a weaker wind season, it remains adequate at 1.2x. Further, the company proposes to prepay the high-cost debt from its existing debt, which shall improve its coverage metrics going forward.

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, which has been set up across multiple locations.

Credit challenges

Vulnerability of cash flows to variation in weather conditions - RRPL 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 diversity in the asset profile.

Exposure to O&M practices of contractors – The generation performance of the underlying assets may be adversely impacted in case of improper O&M practices by the contractors, given that some of the company's O&M contractors have weak financial profile. Moreover, the assets are exposed to the risk of decline in PLFs and increase in maintenance costs given their vintage.

RRPL remains exposed to HESCOM's credit risk profile –HESCOM is the offtaker for ~30% of the company's installed capacity, exposing RRPL to the discom's weak credit risk profile. Any delay in payments by the counterparty will stretch the company's receivable cycle and adversely impact its overall liquidity profile.

Challenges of implementing forecasting and scheduling regulations – The company remains exposed to the regulatory challenges of implementing the scheduling and forecasting framework for the wind power projects of Gujarat and Karnataka. This is mainly because of the limited experience of domestic industry players in scheduling and forecasting and the variable nature of wind energy generation.

Liquidity position: Strong

The company's liquidity position is supported by healthy cash flows from operations and presence of cash balances & liquid investments of Rs. 12.9 crore as on February 9, 2022. Post the prepayment of the loans availed in February 2022, the company's annual repayment obligation of the company would remain low at Rs. 0.88 crore against expected cash accruals of Rs. 6.5-7.0 crore. The company is expected to maintain additional liquidity of Rs 10 crore in the form of cash balances or liquid investments to meet any unforeseen requirements or for acquisitions, at any given point of time. Also, there is a track record of timely funding support from Group companies in case of any exigencies.

Rating sensitivities

Positive factors – The rating may be upgraded if the wind assets display a healthy operating performance with PLFs above the historical average along with the timely collection of payments from the offtakers, improving the leverage and coverage metrics, would be trigger for change in outlook to positive and/or an upgrade.

Negative factors - A significant decline in generation or increase in receivables from discoms or outflow of funds to Group entities, adversely impacting the company's liquidity position, could lead to a rating downgrade. Any large debt-funded capex or acquisition, adversely impacting 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

RRPL, incorporated in September 2013, is a fully owned subsidiary of Poysha Power Projects Pvt Ltd (earlier a wholly-owned subsidiary of Goyal MG Gases Pvt Ltd or GMGGPL). Earlier, GMGGPL was the parent of RRPL and the change has been effective since June 2017 following the Group's restructuring. RRPL operates five wind plants with cumulative capacity of 37.00 MW, with one 11.20 MW plant in Karnataka and four wind power assets having a cumulative capacity of 25.80 MW in Gujarat. The capacity has increased from 32.5 MW with the addition of a new 4.5-MW project in Gujarat through acquisition in October 2019. The plants have been operational since 2007 for 24.0 MW, 2008 for 11.2 MW and 2012 for 1.8 MW. These assets have been acquired by RRPL over a period between 2014 and 2019.

Key financial indicators

ACSEPL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	23.8	16.5
PAT (Rs. crore)	5.0	0.4
OPBDIT/OI (%)	66.8%	49.8%
PAT/OI (%)	21.2%	2.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.18	0.93
Total Debt/OPBDIT (times)	1.97	3.11
Interest Coverage (times)	4.53	2.63

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 Dec 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					25-Feb-2022	23-Nov-2020	23-Aug-2019	19-June-2018
1	Term loan	Long Term	27.00	27.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Unallocated	Long Term	13.00	-	[ICRA]A (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Term Loan	Simple
Unallocated	NA

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	Feb 2014	-	Dec 2024	8.85	[ICRA]A (Stable)
NA	Term Loan	Nov 2014	-	Sep 2025	12.89	[ICRA]A (Stable)
NA	Term Loan	Apr 2021		Sep 2027	5.26	[ICRA]A (Stable)
NA	Unallocated	-	-	-	13.00	[ICRA]A (Stable)

Source: *Company*

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

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About ICRA Limited:

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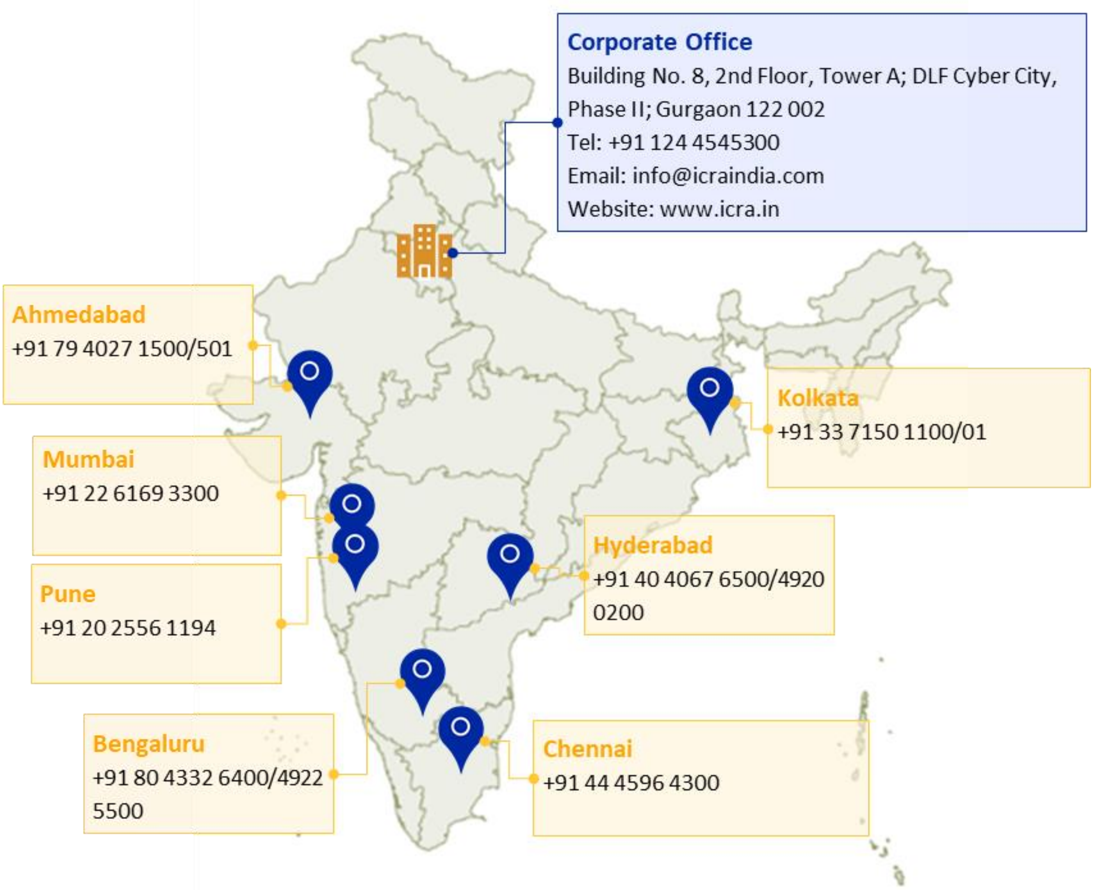

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