May 30, 2023

# Poysha Power Generation Pvt Ltd: Ratings downgraded

## 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 | 40.00 | [ICRA]BBB+(Stable); downgraded from [ICRA]A-(Stable) |
| **Total** | **40.00** | **40.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

In light of fungibility of cashflows between Poysha Power Generation Pvt Ltd (PPGPL), Rugby Renergy Pvt Ltd (RRPL) and Goyal MG Gases Pvt Ltd (GMGGPL), and various intra-group transactions amongst the promoters and these entities, the rating approach for assessment of credit profile factors in consolidation of financial and business risk profiles of these three entities referred to as Goyal Group. ICRA notes that cross-default linkages exist between the loans taken by PPGPL and GMGGPL. Despite this, the rating of PPGPL is not constrained by the rating of GMGGPL, as ICRA judges—based on the SPV (RRPL)'s characteristics and interactions with the lenders - that the latter would likely avoid invoking the cross-default clause so as to preserve its economic interests.

GMGGPL, which is engaged in manufacturing and processing of industrial gases, is the flagship entity of the Group and accounts for ~80% of the consolidated revenues and maintains over Rs. 100 crore in cash & liquid investments, apart from sufficient cushion in working capital limits. RRPL and PPGPL both house operational wind power assets with steady cash generation.

The downgrade in the ratings of PPGPL factors in the moderation in its liquidity profile in FY2023. The company upstreamed excess liquidity to Goyal MG Gases Pvt Ltd (GMGGPL) in FY2023, as against earlier expectation that PPGPL will maintain Rs ~10 crore (excluding DSRA) in liquid investments on its balance sheet at all times. However, in May-2023, the company has again recalled Rs ~10 crore of liquid funds back on its balance sheet, and intends to maintain the same going forward at all times. This will be a key monitorable. GMGGPL is expected to extend support to PPGPL in case of any cash flow mismatch in servicing its debt obligations or funding any future acquisitions.

Moreover, the rating remains constrained by the ageing of the PPGPL's assets, with 35% (of total MW capacity) of the assets having crossed 25 years  maintenance costs, risk of equipment failure and subdued PLF levels.

The ratings factor in the availability of long-term power purchase agreements (PPAs) with multiple commercial & industrial (C&I) customers for 34.68-MW wind power capacity under group captive mechanism at a gross weighted average tariff of Rs ~6.6 per unit (Rs ~4.2 per unit net tariff after open access charges). However, 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, 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.

Although the overall debt metrics remain comfortable, ICRA takes note of the additional Rs. 40-crore debt funding availed by the company in FY2022, which has increased the leverage level and moderated the debt coverage metrics for the company. The debt raised against existing wind power assets, has been extended as advances to Group entities, for maintaining liquidity cushion for the Goyal Group and funding new renewable power acquisitions. Further, the company's debt coverage metrics are expected to remain comfortable in the near to medium term, supported by satisfactory generation performance. The rating also continues to favourably factor in the experience of the promoters in the renewable energy business. Further, the company's liquidity profile is supported by timely payments from captive customers so far and presence of debt service reserve account (DSRA).

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 has remained declined slightly in FY2023, revenues were largely stable owing to higher net realisation. Generation performance for existing assets is expected to be stable over the near to medium term. 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 debt coverage metrics.

## 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 23 customers for 15 years (respective PPAs expiring in FY2033-FY2034 for 19 customers and FY2037 for 4 customer) and with 5 customers for 3-5 years (expiring over FY2024-FY2026). The weighted average tariff for the entire capacity is Rs ~6.6 per unit (gross), which is at a discount to the grid tariff charged to C&I customers, reflecting the competitiveness of the power generated by the company. The residual tenure of the PPAs remains higher than the balance debt repayment tenure.

**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. Further, PPA with TANGEDCO had been terminated wef Apr-2022, from which there was delay of ~7-8 months in payments, and the capacity has been allocated to new captive customers FY2023 onwards. Timely realisation of monthly payments from offtakers supports the company's liquidity profile.

**Long experience and established presence of promoters in renewable energy business** – PPGPL 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

**Moderate credit profile of the Goyal group -** GMGGPL, which is engaged in manufacturing and processing of industrial gases, is the flagship entity of the Group and accounts for ~80% of the consolidated revenues and maintains over Rs. 100 crore in cash & liquid investments, apart from sufficient cushion in working capital limits. RRPL and PPGPL both house operational wind power assets. GMGGPL had a total external debt of Rs 120.8 crore as on December 31, 2023. The debt has been largely availed to provide bridge finance for acquisition of wind power assets housed under RRPL and PPGPL. RRPL and PPGPL then typically raise debt against these assets and reimburse the promoters or GMGGPL for their equity/quasi-equity contribution.

**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.

**Moderation of balance sheet liquidity position and reduction in promoter infused funds** –

The company upstreamed excess liquidity to Goyal MG Gases Pvt Ltd (GMGGPL) in FY2023, as against earlier expectation that PPGPL will maintain Rs ~10 crore (excluding DSRA) in liquid investments on its balance sheet at all times. However, in May-2023, the company has again recalled Rs ~13 crore of liquid funds back on its balance sheet, and intends to maintain the same going forward at all times. This will be a key monitorable. GMGGPL is expected to extend support to PPGPL in case of any cash flow mismatch in servicing its debt obligations or funding any future acquisitions. Further, total promoter's contribution has reduced post redemption of Rs 7 crore CCD investments in FY2023.

GMGGPL is expected to extend support to PPGPL in case of any cash flow mismatch in servicing its debt obligations. ICRA notes that 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 2.5 times in FY2024 and reduce thereafter gradually for PGPL. For the company, the debt coverage metrics are expected to remain comfortable with DSCR at over ~1.4 times in the near to medium term (without factoring in proposed addition of new 9 MW asset).

**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. The average PLF across all the plants in FY2023 was 14.3% as against 14.8% in FY2022 owing to on account natural wind related variability.

**Exposed to credit risk profile of customers -** While 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 estimated cash flow from operations from existing assets of 34.68 MW, of Rs. ~8-10 crore over the next two years against the annual repayment and interest obligations of Rs. ~7.7-8.0 crore per annum over the next two years. Proposed acquisition of new asset (9 MW capacity) should further aid the cashflows, if it materialises. Also, the company has cash balances & liquid investments of Rs. ~13.8 crore (including DSRA of one quarter) as of May 30, 2023. Also, there is a track record of timely funding support from the GMGGPL in case of any exigencies, which has sizeable liquid investments.

GMGGPL had cash and liquid investments of over Rs 100 crore as on March 31, 2023, apart from sufficient cushion in its working capital limits. It is comfortably expected to meet its scheduled repayment obligations in FY2024 from its operating cash flows.

## 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. Significantly higher on-balance sheet liquidity and improvement in Goyal group's overall credit profile on a sustained basis can also lead to a positive rating action.

**Negative factors –** The rating could be downgraded if any significant decline in generation or increase in receivables from the customers adversely impacts 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. Lower on-balance sheet liquidity or deterioration in Goyal group's overall credit profile on a sustained basis can also lead to a downward rating action.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Wind Power Producers<br>Rating Approach – Consolidation |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | ICRA has considered the consolidated financials of GMGGPL, PPGPL and RRPL. |

## 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. 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 entirely to group captive customers. The overall capacity of PPGPL is 34.68 MW, located across various districts of Tamil Nadu.

### Key financial indicators (audited)

| PPGPL Standalone | FY2021 | FY2022 | FY2023 Provisional |
|---|---|---|---|
| **Operating income** | 15.2 | 19.8 | 19.8 |
| **PAT** | 4.0 | 6.4 | 8.7 |
| **OPBDIT/OI** | 60.3% | 63.1% | 77.2% |
| **PAT/OI** | 26.5% | 32.6% | 44.1% |
| **Total outside liabilities/Tangible net worth (times)** | 1.7 | 2.8 | 1.4 |
| **Total debt/OPBDIT (times)** | 0.6 | 3.1 | 2.2 |
| **Interest coverage (times)** | 6.4 | 9.3 | 6.7 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2024) | | | | Chronology of rating history for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of Mar 31, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | | Date & rating in FY2021 |
| | | | | | May- 30- 2023 | - | 25-Feb-2022 | 06-Apr-2021 | - |
| 1 | **Term loans** | Long term | 40.00 | 33.40 | **[ICRA]BBB+ (Stable)** | - | **[ICRA]A-(Stable)** | **[ICRA]A- (Stable)** | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term 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 analysing 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 are available on ICRA's website: Click Here

### Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **NA** | **Term Loan** | Dec 2021 | - | Jun 2029 | 40.00 | [ICRA]BBB+ (Stable) |

*Source: Company*

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

### Annexure II: List of entities considered for consolidated analysis – Not Applicable

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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