May 30, 2023

Rugby Renergy Private Limited: Rating downgraded to [ICRA]A- (Stable) from [ICRA]A (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	27.00	30.44	[ICRA]A- (Stable); Rating downgraded from [ICRA]A (Stable)
Long-term – Unallocated	13.00	9.56	[ICRA]A- (Stable); Rating 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 (PPGPL)'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 RRPL factors in the moderation in its liquidity profile in FY2023. The company upstreamed excess liquidity to promoters, as against earlier expectation that RRPL 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 ~20 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 RRPL in case of any cash flow mismatch in servicing its debt obligations or funding any future acquisitions.

The rating also 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. Also, the company's liquidity profile is supported by timely payments from GUVNL and presence of debt service reserve account (DSRA). This apart, the rating continues to favourably factor in the experience of the promoters in the renewable energy business.

The rating, however, is also 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-FY2023 over FY2020 levels owing to weaker wind seasons, 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 was largely stable in FY2023 vis-a-vis FY2022. 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, which has seen stretched payment cycle H2FY2023 onwards.

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 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 ~5.25 years against the balance debt repayment tenure of 4.25 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, it recovered slightly to 17.7% in FY2022, and remained stable at 17.7% in FY2023 as well.Decline in PLF has been largely due to weaker wind seasons. Nonetheless, the cash accruals remained adequate in relation to the debt servicing obligations of the company.

Largely timely payments from GUVNL and presence of DSRA - The payments from GUVNL have been historically on time, which accounts for ~70% of the total offtake. Timely monthly payments from the GUVNL and the presence of cash DSRA support the company's liquidity profile.

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

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.

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.

Moderation in liquidity position, and higher than envisaged external debt; coverage indicators for RRPL (standalone) still remain comfortable - While, RRPL's leverage and coverage indicators remain comfortable, they have moderated vis-à-vis earlier expectations, due to fresh term debt availed in FY2023 against existing wind power assets, for reimbursing promoters for their equity/quasi-equity contribution. The company upstreamed excess liquidity to promoters, as against earlier expectation that RRPL 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 ~17 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 RRPL in case of any cash flow mismatch in servicing its debt obligations or funding any future acquisitions.

RRPL's gearing level declined to 0.83x as of March 2022 from 0.92x as of March 2021, and further to 0.80x as of March 2023. While the DSCR ratio declined from 1.82x in FY2020 over FY2021-FY2023 owing to a weaker wind seasons, it remained adequate at 1.34x/1.25x/1.24x in FY2021/FY2022/FY2023. Further, with replacement of high-cost debt (~10.5-11%) with relatively lower cost debt (~9%) in H1FY2023, there has been improvement in interest coverage from 3.51x in FY2022 to 4.71 times in FY2023 (4.53 times in FY2020). Coverage indicators are expected to improve over the medium term with scheduled debt repayments.

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. The realisation from HESCOM has deteriorated with payment cycle stretching to ~100 days Nov-2022 onwards, from payment cycle of ~20-60 days observed over FY022-H1FY2023. However, payment cycle from HESCOM is expected to normalise to a certain extent going forward.

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: Adequate

The company's liquidity position is supported by healthy cash flows from operations and presence of cash balances & liquid investments of Rs. 21.5 crore as on May 30, 2023 (including DSRA). Post the debt availed in H2FY2023 from ABFL, the company's annual repayment obligation and interest of the company for FY2024-FY2025 would be at Rs. ~7.5-8.0 crore against expected cash accruals of Rs. ~10.0-11.0 crore. Also, there is a track record of timely funding support from the GMGGPL/promoters 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 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. Significantly higher balance sheet liquidity or improvement in Goyal group's overall credit profile on a sustained basis can also lead to a positive rating action.

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 Rating Approach – Consolidation
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 (audited)

RRPL Standalone	FY2021	FY2022	FY2023 Provisional
Operating income	16.5	18.8	18.9
PAT	0.4	3.0	2.5
OPBDIT/OI	49.8%	59.8%	61.3%
PAT/OI	2.5%	15.8%	13.3%
Total outside liabilities/Tangible net worth (times)	0.93	0.75	0.79
Total debt/OPBDIT (times)	3.11	2.26	2.30
Interest coverage (times)	2.63	3.51	4.71

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	23-Nov-2020
1	**Term loans**	Long term	30.44	26.60	[ICRA]A- (Stable)	-	[ICRA]A (Stable)	[ICRA]A (Stable)
2	**Unallocated**	Long term	9.56	-	[ICRA]A- (Stable)	-	[ICRA]A (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term 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 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**	FY2022-FY2023	-	September 2027	30.44	[ICRA]A- (Stable)
NA	**Unallocated**	-	-	-	9.56	[ICRA]A- (Stable)

Source: Company

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

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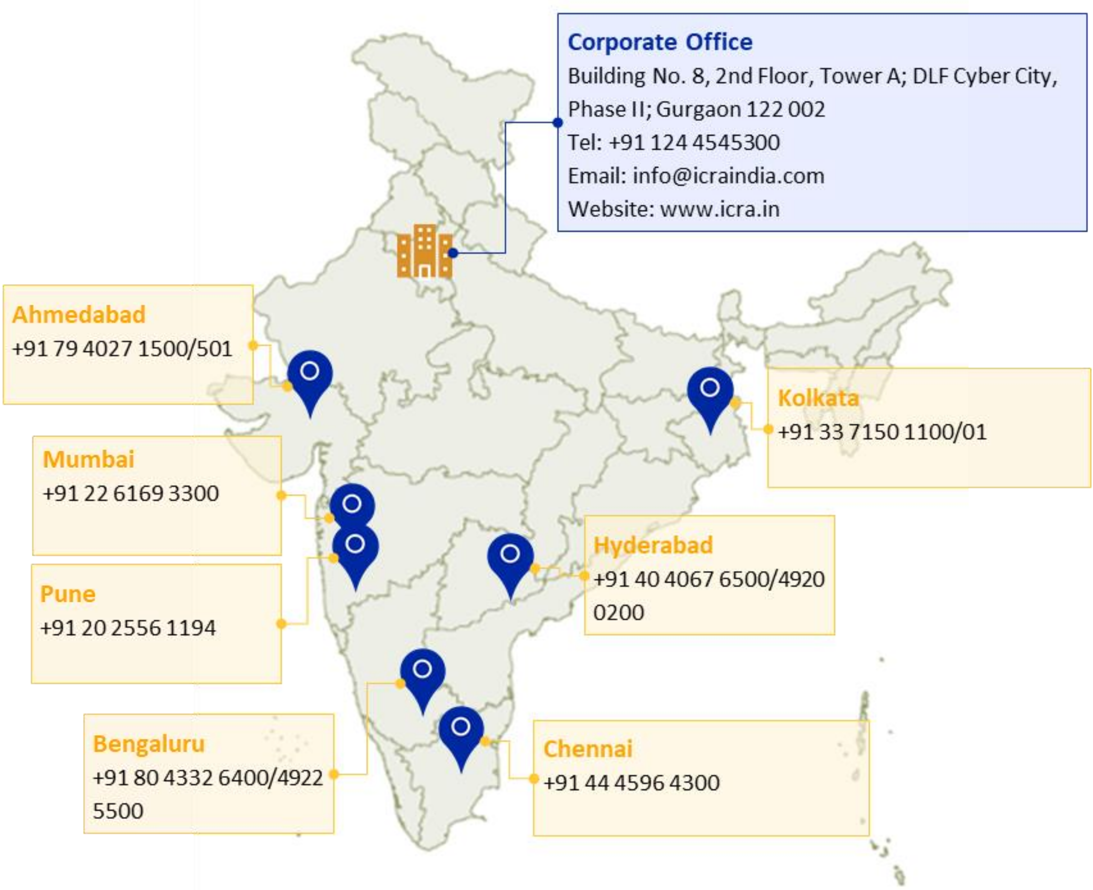

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