May 13, 2024

Enerfra Projects (India) Pvt. Ltd: Rating reaffirmed and removed from Issuer Non-cooperating category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Term loan	14.00	3.40	[ICRA]BBB- (Stable); reaffirmed; rating removed from Issuer Not-Cooperating category
Long-term – Unallocated	6.00	16.60	[ICRA]BBB- (Stable); reaffirmed; rating removed from Issuer Not-Cooperating category
Total	**20.00**	**20.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation continues to factor in Enerfra Projects (India) Pvt. Ltd's (EPPL) experienced management with a long operational track record in the wind BOP segment, its established relations with customers, a healthy order book position and its ability to secure orders from reputed clients. Further, EPPL's reliance on external debt is low as the wind balance of plant (BOP) works are majorly financed by customer advances and the payments in the wind segment have been timely. The rating also continues to positively factor in the favourable long-term PPA with GUVNL for the 4.0-MW wind power plant and a debt service reserve account (DSRA) equivalent to one quarter's interest and principal repayment.

The rating is, however, constrained by the high risks associated with project and customer concentration as well as the intense competition in the EPC segment. The rating is further constrained by the sub-optimal plant load factor (below P-90 levels) of the 4.0-MW wind power plant at ~18% in FY2023 and ~20% in FY2024 due to subdued wind levels near plant location and the operation & maintenance issues of OEMs.

The Stable outlook reflects ICRA's expectations that the company would continue to maintain its credit profile with an improvement in revenue, profit margins and the overall liquidity position.

Key rating drivers and their description

Credit strengths

Experienced promoters in wind BOP business – The company is promoted by Mr. U. B. Reddy and Mr. C. R. Srinivas, who have more than three decades of experience in the wind energy sector. The management has demonstrated a successful track record of project execution in the past.

Healthy order book provides revenue visibility – EPPL had a healthy order book of ~Rs. 1,414 crore as on February 29, 2024, primarily consisting of land, civil and BOP works. These projects are scheduled to be executed over the next 36 months, providing significant revenue visibility for the near term. The robust order backlog ensures support for future revenue growth.

Moreover, the company has been operating a 4.0-MW wind power plant at Patan, Gujarat, since March 2017. The company has a long-term PPA with Gujarat Urja Vikas Nigam Limited (GUVNL) ([ICRA]AA-(Stable)/A1+) at a feed-in-tariff of Rs. 4.19 per unit, limiting the demand and counterparty credit risks to a major extent. Further, a DSRA equivalent to one quarter's interest and principal repayment supports its liquidity position to an extent.

Comfortable gearing and debt protection metrics - EPPL's financial risk profile is comfortable with an estimated gearing of 0.1 times, interest coverage of 41.1 times and DSCR of 4.6 times in FY2024, owing to low reliance on external debt as the wind BOP works are majorly financed by customer advances and the progress of the payments has been timely. Going forward, the company's debt protection metrics are likely to improve further in FY2025 with the expected increase in earnings and scheduled repayment of debt .

Credit challenges

High project and customer concentration – The company remains highly dependent on a few customers or projects for its revenues as the total unexecuted order book comprises large-sized orders and a major part of the orders is in the initial phase of execution. Any slowdown in project execution may result in lower billing and profitability for the company.

Competition in EPC segment – The EPC industry is highly fragmented, exposing EPPL to intense competition and pricing pressures. Moreover, the company's scale remains modest that constrains its bargaining power and results in low margins in the EPC segment.

Vulnerability of wind power division's cash flows to high seasonality - The seasonal nature of wind in India and the variability of wind speed and its impact on the PLF make the revenue volatile and affect the cash flows, given the single-part tariff rate fixed in the PPA. The PLF levels of the 4.0-MW wind power plant remained around 18-19% in the last three years against 26% in FY2020 owing to reduced wind availability and operation & maintenance issues of OEMs.

Liquidity position: Adequate

The liquidity position of EPPL is adequate with timely receipt of payments from its customers, free cash and bank balance of Rs. 27.98 crore and DSRA of Rs. 1.37 crore as on March 31, 2024, which largely covers principal and interest obligation for next twelve months'.

Rating sensitivities

Positive factors – The rating could be upgraded if the company significantly improves its revenues and profitability margins on a sustained basis, while maintaining a prudent working capital cycle and adequate liquidity position.

Negative factors – A material decline in the company's scale of operations due to delays in order execution/addition or a decline in the operating margins could result in a downgrade. Also, any significant decline in the PLF levels or stretch in the overall working capital cycle adversely impacting the cash flows would put pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Wind power producers Construction entities
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of EPPL

About the company

Enerfra Projects (India) Pvt. Ltd (EPPL), incorporated in November 2013, is a civil contractor and consultant in the wind and solar energy sector. The company, headquartered in Bengaluru, with an office in Hyderabad, undertakes engineering, procurement and construction (EPC) contracts for providing balance of plant (BOP) services (i.e., development of entire wind farm, excluding wind turbine erection) for firms in the wind sector. It had executed EPC contracts for reputed firms such as the Actis Group and ReNew Power Limited in the past.

EPPL also operates a wind power production division, under which it operates a 4-MW wind power plant at Patan, Gujarat, a part of the larger 300-MW wind farm developed by Gamesa Renewable Private Limited. The project was completed in March 2017 and has a power purchase agreement (PPA) with Gujarat Urja Vikas Nigam (GUVNL) for 25 years till June 2042, at an agreed feed-in tariff of Rs. 4.19 per KWh to offtake the entire power generated.

Key financial indicators (audited)

	FY2022	FY2023	FY2024^
Operating income	41.27	81.70	129.70
PAT	5.49	5.49	5.49
OPBDIT/OI	28.39%	9.70%	6.46%
PAT/OI	13.29%	4.75%	4.18%
Total outside liabilities/Tangible net worth (times)	2.05	3.26	2.16
Total debt/OPBDIT (times)	0.99	1.28	0.41
Interest coverage (times)	7.12	6.42	13.02

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
					May 13, 2024	Oct 20, 2023	May 19, 2023	Apr 25, 2022	-
1	Term loans	Long-term	3.40	3.40	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable) ISSUER NOT COOPERATING	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	-
2	Unallocated	Long-term	16.60	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable) ISSUER NOT COOPERATING	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
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 loans**	March 2017	-	FY2027	3.40	[ICRA]BBB-(Stable)
NA	**Unallocated**	-	-	-	16.60	[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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