August 22, 2024

Rugby Renergy Private Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	30.44	21.00	[ICRA]A- (Negative); reaffirmed; outlook revised to negative from Stable
Long term – Unallocated	9.56	19.00	[ICRA]A- (Negative); reaffirmed; outlook revised to negative from Stable
Total	**40.00**	**40.00**	

**Instrument details are provided in Annexure-I*

Rationale

The outlook for the long-term rating assigned to Rugby Renergy Pvt Ltd (RRPL) has been revised to Negative from Stable because of the lack of adequate liquidity maintained by the company. Given the tenured machines and low stipulated debt service reserve, the low liquidity maintained by the company is constraining its credit profile. While the company has sizeable funds in close-ended alternate investment funds (AIFs), it does not lend comfort to its liquidity position given their illiquid nature. ICRA notes that cross-default linkages exist between the loans taken by RRPL and Goyal MG Gases Pvt Ltd (GMGGPL). Despite this, the rating of RRPL is not constrained by the rating of GMGGPL, as ICRA judges—based on the RRPL's characteristics and interaction with lender - that the latter would likely avoid invoking the cross-default clause so as to preserve its economic interests.

The rating reaffirmation 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. This apart, the rating continues to favourably factor in the experience of the promoters in the renewable energy business.

The rating, however, is constrained by the exposure of the company's cash flows and debt protection metrics to the seasonality and variation in wind power density across the years, given the single part and fixed nature of the tariff under the PPAs. The company's generation performance declined in FY2024 from the FY2023 levels owing to cyclone, which led to a shutdown of its plants in Gujarat for some time. Hence, the generation performance would be a key monitorable, going forward. 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, and the payments have been stretched in certain months.

Also, the company remains exposed to the performance of O&M contractors like Suzlon, Vestas and Renom. The generation performance may be adversely impacted in case of improper O&M practices by the contractors, given that some of them have weak financial profiles. 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 because of the variable nature of wind energy generation.

Key rating drivers and their description

Credit strengths

Long-term PPAs mitigate offtake and tariff risks; 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. The weighted average tariff is at a discount to the average power procurement cost for the offtaker utilities, reflecting the competitiveness of the power generated by the company.

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. The reported PLF for RRPL, however, had declined to 14.1% in FY2024 from 17.8% in FY2023 due to cyclone which led to a shutdown of the plants in Gujarat for some time. Nonetheless, the cash accruals remained adequate in relation to the debt servicing obligations of the company.

Timely payments from GUVNL - The payments from GUVNL have been historically on time, which accounts for ~70% of the total offtake. The timely monthly payments from GUVNL supports 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. At present, the Group is operating wind power plants with cumulative capacities of ~70 MW set up across multiple locations.

Satisfactory debt coverage indicators - The company's debt coverage metrics are expected to remain comfortable with a cumulative DSCR of above 1.40x over the debt repayment tenure, supported by the PPA at a remunerative tariff and competitive interest rates.

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 profiles. Moreover, the assets are exposed to the risk of decline in PLFs and increase in maintenance costs, given their vintage.
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: Stretched

The company's liquidity position remains stretched owing to the low cash & bank balances of Rs. 2.0 crore as on July 9, 2024 and debt service reserve (DSRA) of Rs 1.02 crore in the form of Bank Guarantee, which cover for less than six months of debt servicing of the company and well below the expectations of ICRA on liquidity to be maintained with the company. While the cash flow from operations are expected to be adequate to meet debt servicing requirement of the company, the same can come under pressure on account of delay in collections from the offtakers and/ or lower generation led by variability in weather patterns/ older machines necessitating presence of adequate liquidity buffer on the books of the company.

Rating sensitivities

Positive factors – The outlook on the long-term rating may be revised to Stable, if company maintains adequate liquidity (in the form of cash balances and liquid investments) equivalent to at least six months of debt servicing and operating costs, on its balance sheet at all times. Further, the rating / outlook can be revised upwards if the company demonstrates healthy operating performance with PLFs above the historical average and the timely collection of payments from the offtakers leading to improvement in debt coverage metrics and liquidity.

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. Further, any debt-funded capex or acquisition that adversely impacts the debt coverage metrics would be another negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Wind
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

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 a 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	FY2023	FY2024^
Operating income	18.9	15.5
PAT	4.7	2.5
OPBDIT/OI	58.7%	49.6%
PAT/OI	24.8%	16.4%
Total outside liabilities/Tangible net worth (times)	0.70	0.62
Total debt/OPBDIT (times)	2.53	3.49
Interest coverage (times)	6.89	3.14

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; ^Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current rating (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount rated (Rs Crore)**	**Aug 22, 2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Term loans	Long Term	21.00	[ICRA]A- (Negative)	30-May-2023	[ICRA]A- (Stable)	-	-	25-Feb-2022	[ICRA]A (Stable)
Unallocated	Long Term	19.00	[ICRA]A- (Negative)	30-May-2023	[ICRA]A- (Stable)	-	-	25-Feb-2022	[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	-	FY2028	21.00	[ICRA]A-(Negative)
NA	**Unallocated**	-	-	-	19.00	[ICRA]A-(Negative)

Source: Company

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

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