December 10, 2020

Powerica Limited: [ICRA]AA-(Stable)/[ICRA]A1+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Unallocated	200.0	[ICRA]AA-(Stable)/ [ICRA]A1+; Assigned
Total	**200.0**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings factor in Powerica Limited's (Powerica) established position as one of the leading players in the diesel generator (DG) industry, supported by its long track record of operations and status as one of the three original equipment manufacturers (OEM) of DG sets for Cummins India Limited (CIL; a leading manufacturer for DG set engines/alternators) in India; and Powerica's healthy credit metrics. Powerica has an association of almost three decades with CIL. Within the generator segment, in addition to DG sets, the company is present in the medium speed large generator (MSLG) segment. However, its revenue contribution has been fairly limited thus far. While the generator segment remains the key revenue contributor (~85% of the total revenue) over the years, the company has also diversified into the wind energy generation business and has steadily scaled up its generation capacity, primarily in Gujarat. Given the demonstrated operating track record and steady performance of the operational wind energy assets, this segment has continued to support the company's profits and cash accruals, with profitability of the generator business remaining under pressure in the recent years. ICRA also notes the presence of long-term power purchase agreements (PPAs) for the entire wind energy generation portfolio, at fixed tariff rates, for ~90% of the total capacity with Gujarat Urja Vikas Nigam Limited (GUVNL), and Tamil Nadu Electricity Board (TNEB) for the balance. This provides strong revenue visibility and translates into low counterparty credit risk in case of GUVNL.

Additionally, the ratings factor in Powerica's comfortable financial profile and liquidity position, as demonstrated by steady internal accrual generation, sizeable net worth, and sizeable liquid investments/cash balances. The company has incurred sizeable capex in its wind energy business in over the past year and is currently in the process of adding incremental generation capacity. Moreover, it has plans of a sizeable share buyback (of shares held by PE investor) in the current fiscal. These factors are expected to result in an increase in the company's leverage levels and some moderation in debt protection metrics in the near term. However, the same is expected to strengthen subsequently on the back of incremental contribution from the newly added capacity as well as improved performance of the generator business, and no major sizeable debt-funded capex.

Notwithstanding the above-mentioned strengths, the ratings are constrained by the intense competition in the industry and susceptibility of operations to the cyclicality in demand for DG sets from the key end-user industries (real estate, telecom, hospitality, infrastructure, etc). Demand from these sectors has remained subdued in the recent times due to lower economic activity, as demonstrated by moderation in DG set revenues for the company in the recent years. Moreover, adverse impact of the novel coronavirus (Covid-19) pandemic, is expected to exert some pressure on Powerica's revenue and accrual generation in FY2021. The ratings also factor in the concentration risk as the company is reliant on a single vendor (i.e. CIL) for the key components of DG sets. Nonetheless, ICRA notes that the Powerica is one of the three OEMs for CIL and handles the key geographic territories, which make the relationship equally important for the latter. For its wind energy business, the company remains exposed to counterparty credit risk in case of TNEB, which has a relatively weaker financial profile. This is reflected in the significant delay in receipt of payments from the same, leading to build-up of receivables. Moreover, the wind energy business remains exposed to risks that are typical to all renewable energy projects, including exposure to variance in wind power density associated with climatic conditions, as revenues are linked to actual units generated and exported, given the single-part nature of tariff under the PPAs. Nonetheless, this risk is partly mitigated by the demonstrated track record for a sizeable part of the asset base.

The Stable outlook reflects ICRA's expectation that despite challenging business dynamics due to subdued economic activity in the wake of the pandemic, Powerica will continue to benefit from its established presence in the industry, its association with CIL and diversified revenue base; enabling the company to sustain its liquidity position.

Key rating drivers

Credit strengths

Established operational track record of Powerica in DG set industry – Powerica has an established operational track record and the promoters have extensive experience of around three decades in the DG set industry. In addition to DG set sales, the company provides turnkey solutions that include conducting project feasibility studies, site planning, design work and testing and commissioning of the DG sets, largely for high horse power categories. Moreover, within the generator segment, the company is present in the MSLG segment, under association with Korea-based Hyundai Heavy Industries for sourcing of engines. While the revenue contribution from MSLG business has been fairly limited thus far, the company has a sizeable order from a public sector entity in hand, execution of which is expected to result in scaling up of revenues from this segment over the next few years.

Key OEM of CIL with strong presence in western and southern states of India – Powerica is one of the three OEMs for CIL, with a long business association and has developed a strong brand presence, supported by a well-entrenched distribution network. Moreover, CIL's position among the leading players in the DG engines industry, controlling a dominant market share in the DG set market (especially for medium and high horse power categories), helps it in marketing its products. However, largely predefined geographic territories limit the DG set sales of the OEMs, thereby constraining their ability to scale up DG set revenues to some extent.

Diversified revenue streams – While the generator segment, remains the key revenue generator (~85% of the total revenue) over the years, the company diversified into the wind energy generation business in 2008 and since then has steadily scaled up its generation capacity, primarily in Gujarat. Under the wind energy business, the company operates both as an independent power producer (IPP) and well as EPC developer [primarily for balance of plant (BoP)] for other IPPs. Over the years, the company has scaled up its wind energy asset base and at present operates wind energy assets with a combined capacity of ~255 MW (as of November 2020). Wind energy segment accounted for two-third of the total capital employed as of March 2020. Given the diversification into two business segments—generators and wind energy generation—the latter has ensured stable revenue and cash accruals, even though the performance of former is linked to economic cycles and investments.

Minimum demand and pricing risk for operational wind energy assets with stable performance – Powerica at present has generation capacity of ~255 MW with PPAs at fixed tariffs on long-term basis with GUVNL and TNEB, thereby mitigating offtake risk. Even in case of another wind project under development in the state of Gujarat, the company has entered into a long-term PPAs with Solar Energy Corporation of India Limited (SECI) at a fixed tariff. However, the execution of this project has been deferred, given the delay in obtaining the developer approval from the state authority. ICRA will continue to monitor the developments in this regard. Nevertheless, the existing portfolio of operational assets has a demonstrated operating track record—56% of the portfolio has a track record of more than three years and 20% of the portfolio has operational track record of one to three years.

Low counterparty credit risk – Most (~90%) of the operational wind energy generation capacity is located in Gujarat, under long-term PPAs with GUVNL, which has a good financial profile, resulting in low counterparty credit risk. This is also demonstrated by track record of timely receipt of payments from this utility.

Comfortable financial profile and liquidity position – Powerica's comfortable financial profile and liquidity position are demonstrated by steady internal accrual generation, strong net worth, and sizeable liquid investments/cash balances. The company has incurred sizeable capex in its wind energy business over the past year and is currently in the process of adding incremental generation capacity. Moreover, it has plans of a sizeable share buyback in the current fiscal. These factors are expected to result in an increase in leverage levels and some moderation in debt protection metrics in the near term. However, the same are expected to strengthen subsequently on the back of incremental contribution from the newly added capacity as well as improved performance of the generator business with no major sizeable debt-funded capex.

Credit challenges

Intense competition in the industry – The DG set industry is highly fragmented and competitive in nature, given the presence of many regional players, especially in the low horse power category. Nevertheless, the company benefits to some extent because of its strong brand presence and established track record in the industry, supported by its long association with CIL.

Vendor concentration with high dependence on CIL – Powerica is dependent on CIL for sourcing its key component—diesel engines—for DG sets. Moreover, the geographic territories are defined by CIL, which limits market expansion. Nonetheless, ICRA notes that the Powerica handles the key geographic territories, which make the relationship equally important for CIL.

Exposed to cyclicality inherent in DG set business – Powerica's operations remain susceptible to the cyclicality in demand for DG sets from the key end-user industries such as real estate, telecom, hospitality and infrastructure. Demand from these sectors has remained subdued in the recent times due to lower economic activity. Moreover, adverse impact of the pandemic is likely to exert some pressure on the DG set revenues in the current fiscal.

Risk of delay in payments from TNEB – The company remains exposed to counterparty credit risk in case of TNEB, which has a financial profile. This is reflected from the significant delay in receipt of payments from the same, leading to build-up of receivables. However, the company's exposure to TNEB is relatively limited (10% of the operational capacity), which mitigates the risk to some extent.

Vulnerability to weather conditions – As is a feature with wind power plants, cash flows are directly linked to prevalent wind conditions at the site. Further, the tariff is single part in nature, which accentuates the resource availability risk. The risk is, however, mitigated to some extent by operational track record of the projects with more than one year of operation.

Liquidity position: Strong

Powerica's liquidity is **strong**, supported by steady internal accrual generation, sizeable liquid investments/cash balances (~Rs. 440 crore as of September 2020) and cushion in the form of undrawn bank lines. The company is undertaking capex towards setting up of incremental wind energy generation capacity and also has plans to buy back the shares (of ~Rs. 250

crore) held by its PE investor. These factors coupled with subdued accrual generation from the generator business is likely to result in a decline in the liquid investments/cash balances in the current fiscal. However, the same is expected to be compensated over the medium term with steady accrual generation from the wind energy business and improvement in profitability metrics of the generator set business. Additionally, the internal accrual generation is expected to be more than sufficient to meet the debt servicing obligations of the company over the medium term.

Rating sensitivities

Positive triggers – The ratings could be upgraded if the company demonstrates healthy growth in scale of operations and improvement in profitability with reduction in leverage levels on a sustained basis, on the back of improvement in demand prospects for DG sets; and stable operational performance of the wind energy assets.

Negative triggers – The ratings could be downgraded if there is considerable decline in revenues and cash flow generation on a sustained basis on the back of subdued demand for DG sets and/or weakening of the market position of the company and/or CIL. Moreover, higher-than-anticipated capex and/or fund outflow towards proposed share buyback leading to moderation in credit metrics, or material decline in operational performance of the wind energy assets, could also lead to a rating downgrade.

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	For arriving at the ratings, ICRA has considered the consolidated financial of Powerica Limited, its subsidiaries and associate company (enlisted in Annexure-2)

About the company

Powerica was set up by Mr. N. C. Oberoi and Late K.R. Puri in 1984. The company is a leading producer of DG sets and operates as an OEM of CIL with established market presence in the western and southern states of India. Powerica is also present in the MSLG segment (with engines being sourced from Hyundai Heavy Industries). Moreover, the company diversified into the wind energy generation business in 2008 and since then has developed generation capacity of ~255 MW (as of November 2020), primarily in Gujarat.

In FY2020, on a consolidated basis, the company reported a net profit of Rs. 61.6 crore on an OI of Rs. 1,243.8 crore compared with a net profit of Rs. 68.5 crore on an OI of Rs. 1,324.1 crore in the previous year.

Key financial indicators – (Consolidated)

	FY2019	FY2020
Operating Income (Rs. crore)	1,324.1	1,243.8
PAT (Rs. crore)	68.5	61.6
OPBDITA/OI (%)	12.1%	13.7%
PAT/OI (%)	5.2%	4.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.7
Total Debt/OPBDIT (times)	0.1	1.1
Interest Coverage (times)	42.0	11.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2021)				Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	FY2020	FY2019	FY2018
					10-Dec-2020	-	-	-
1	Unallocated	Long Term/Short Term	200.0	-	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Unallocated	-	-	-	200.0	[ICRA]AA-(stable)/ [ICRA]A1+

Source: Powerica Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Primeair Windfarm Limited	100%	Full Consolidation
Paramount Windfarms Private Limited	100%	Full Consolidation
Vartaman Wind Energy Private Limited	100%	Full Consolidation
Vespower Windfarm Private Limited	100%	Full Consolidation
Windeon Windfarms Private Limited	100%	Full Consolidation
Soverign Windfarms Private Limited	100%	Full Consolidation
Airstream Windfarms Private Limited	100%	Full Consolidation
Energair Windfarms Private Limited	100%	Full Consolidation
Airpower Windfarm Private Limited	*50%*	Equity Method

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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