

August 22, 2024

Poysha Power Generation Pvt Ltd: Rating downgraded to [ICRA]BBB- (Stable)

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]BBB+ (Stable)
Total	40.00	40.00	

*Instrument details are provided in Annexure-I

Rationale

The rating downgrade for Poysha Power Generation Pvt Ltd (PPGPL) factors in a significant moderation in its debt coverage metrics following an increase in its leverage levels as well as the lack of adequate liquidity maintained by the company. The company availed an additional term loan of Rs. 15 crore in Q4 FY2024, which has been invested in alternate investment funds (AIFs). Further, given the tenured machines and low stipulated debt service reserve, the company's low liquidity is constraining its credit profile. While the company has sizeable funds in close-ended AIFs and has extended significant advances to group companies, these do not lend comfort to its liquidity position, given the illiquid nature of AIF and the discretionary nature of the group companies' advances (and their repayment).

The rating remains constrained by the ageing of PPGPL's assets, with ~35% (of total MW capacity) of the assets having crossed 25 years, leading to risks of higher maintenance costs, equipment failure and subdued PLF levels. The rating is also 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 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.

ICRA notes that cross-default linkages exist between the loans taken by PPGPL and Goyal MG Gases Pvt Ltd (GMGGPL). Despite this, the rating of PPGPL shall not be constrained by the rating of GMGGPL, as ICRA judges—based on the PPGPL'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 factors in the availability of long-term power purchase agreements (PPAs) with multiple commercial & industrial (C&I) customers for 34.68-MW (out of which ~1.13-MW capacity has been sold by the company recently) wind power capacity under the group captive mechanism at a gross weighted average tariff of Rs ~6.7 per unit. The generation performance marginally improved in FY2024, while the revenues rose owing to higher realisation apart from the improvement in generation. However, ICRA takes note of the weak exit clause in the PPAs with the 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. The rating also continues to favourably factor in the experience of the promoters in the renewable energy business.

The Stable outlook reflects the company's steady revenue visibility by virtue of its PPAs and timely collections from the group captive customers.

Key rating drivers and their description

Credit strengths

Long-term PPAs mitigate offtake and tariff risks - The company has entered into long-term PPAs with 23 customers for 15 years (respective PPAs expiring in FY2033-FY2034 for 19 customers and in FY2037 for four customers) and with five customers for 3-5 years (expiring over FY2024-FY2026). The weighted average tariff for the entire capacity is Rs ~6.7 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 debtor days of 4-5 days in the last three years. The timely realisation of the monthly payments from the 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. At present, the Group is operating wind power plants with cumulative capacities of ~70 MW set up across multiple locations.

Credit challenges

Moderation in debt coverage indicators - The company's debt coverage metrics are expected to moderate, going forward, on account of the additional debt availed in FY2024 for investments in AIF. The company's DSCR is estimated to remain close to 1.10x over the next five years.

Ageing of assets exposes company to higher operating risks - Of the total capacity, ~34% of the assets have crossed 25 years of operating period, 1% of the assets are aged between 20 years and 25 years, 43% of the assets are aged between 15 years and 20 years and 22% of the assets are around 10 years old. 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.

Vulnerability of cash flows to variation in weather conditions - PPGPL is entirely dependent on the power generated 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 was 15.1% in FY2024 against 14.3% in FY2023.

Exposed to credit risk profile of customers - While the payments from the group captive customers have been timely, the company remains exposed to the weak to moderate credit risk profile of these customers. Any delay in payments by the counterparties 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 the regulatory challenges of implementing the 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: Stretched

The company's liquidity position remains stretched owing to the low cash & bank balance of ~Rs. 2.6 crore, including interest service reserve (ISRA) of Rs 1.1 crore as on June 27, 2024, which covers for less than three months of debt servicing and well below ICRA's expectations on the liquidity to be maintained with the company. While the cash flow from operations is expected to be adequate to meet the company's debt servicing requirement, the cash flow can come under pressure on account of delay in collections from the offtakers and/or lower generation due to variability in weather patterns/older machines, necessitating the presence of adequate liquidity buffer on the company's books.

Rating sensitivities

Positive factors – The rating can be upgraded if the company is able to improve its operating performance with PLFs remaining above the historical average and reduce its leverage level thereby resulting in improvement in its debt coverage metrics. Also, improvement in liquidity position of the company with adequate buffer (in the form of cash balances and liquid investments) equivalent to at least six months of debt servicing and operating costs being maintained by the company, along with an improvement in the customers' credit risk profile would be key for a rating upgrade.

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 debt service coverage metrics and/ or liquidity position. 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

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's 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 current overall capacity of PPGPL is 33.55 MW (post sale of 1.13-MW capacity under plant 1 of 9.85 MW), located across various districts of Tamil Nadu.

Key financial indicators (audited)

PPGPL Standalone	FY2023	FY2024 [^]
Operating income	19.6	21.4
PAT	5.4	7.1
OPBDIT/OI	63.3%	70.0%
PAT/OI	27.6%	33.1%
Total outside liabilities/Tangible net worth (times)	1.7	1.7
Total debt/OPBDIT (times)	2.7	2.9
Interest coverage (times)	4.3	5.0

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

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs crore)	FY2025 Aug 22, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Long term-loan-fund based	Long Term	40.00	[ICRA]BBB- (Stable)	30-MAY-2023	[ICRA]BBB+ (Stable)	-	-	06-APR-2021	[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

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	-	FY2030	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

ANALYST CONTACTS

Girishkumar Kadam
+91 22 61143441
girishkumar@icraindia.com

Vikram V
+91 40 4547 4829
vikram.v@icraindia.com

Siddhartha Kaushik
+91 124 4545323
siddhartha.kaushik@icraindia.com

Chinmay Sheth
+91 79 4027 1550
chinmay.sheth@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.