Greta Energy Limited

June 07, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund based facilities	6.50	6.50	[ICRA]BB+(Positive); Reaffirmed Outlook revised from 'Stable'
Long-term, Term Loans	16.67	11.67	[ICRA]BB+(Positive); Reaffirmed; Outlook revised from 'Stable'
Long-term, Proposed facilities	26.83	31.83	[ICRA]BB+(Positive); Reaffirmed; Outlook revised from 'Stable'
Total	**50.00**	**50.00**	

Rating action

ICRA has reaffirmed the long-term rating for the Rs. 11.67-crore term loans, the Rs. 6.50-crore fund-based limits and the Rs. 31.83-crore proposed long-term facilities of Greta Energy Limited (GEL)† at [ICRA]BB+ (pronounced ICRA double B plus). The outlook on the long-term rating is revised from Stable to Positive.

Rationale

The revision in the rating outlook from "Stable" to "Positive" considers the improvement in off-take risk given the long-term EPA (Energy Procurement Agreement) entered with Maharashtra State Electricity Distribution Company Limited (MSEDCL) for offtake of 8 MW of power. The rating also positively factors in the PPAs' feed-in-tariff mechanism as determined by Maharashtra Electricity Regulatory Commission (MERC), which supports the profitabilty to an extant. The rating also continues to take into acount the sustained healthy plant load factor (PLF) levels and the timely receipt of payments from Brihanmumbai Electric Supply & Transport Undertaking (BEST). The rating continues to draw comfort from the considerable experience of the promoters and the group in the rice-milling industry and the synergies with group-owned rice mills, leading to fuel-sourcing advantages.

The ratings are, however, constrained by the company's liquidity profile characterized by highly utilised working capital borrowing despite significant additional working capital requirement in the near term (owing to expected increase in receivable days). The current fund-based limit enjoyed by the company will not suffice the working capital requirements for FY2019 and hence, the additional fund infusion in timely manner either by enhancement in bank borrowing or promoter fund infusion will be necessary for shoring up the working capital. The expected increase in receivable days is on account of the new counterparty – MSEDCL, whose payment period is expected to be relatively elongated in comparison to the company's earlier counterparties. The rating also takes into account the volatility in raw material costs which exposes the profitability. Also, the demand for biomass power is driven by renewable purchase obligation (RPO) and any adverse changes in the regulation will impact the top-line and profitability of the operations. Nonetheless, the regulatory scenario remain favourable supporting renewable energy sector through RPO and preferential tariff mechanism.

† *For a complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications.*

Going forward, the timely receipt of the payment from MSEDCL as per the agreement and enhancement of the working capital facilities to fund the increasing requirements remains critical & a key rating sensitivity.

Outlook: Positive

The Positive outlook of GEL reflects the improvement in risk profile owing to new long term PPA arrangement, consistent repayment of term loans, and the healthy operational track record. The ratings may be upgraded if the company is able to adequately mange any delay in receipt of payments by shoring up the working capital (through fund infusion by either promoters or bank borrowing) without significantly impacting the profitability and capital structure. Conversely, the downward pressure on ratings could emerge if there is substantial delay in bills collection, or any adverse changes in the regulation which will impact the operating income and profitability of the operations.

Key rating drivers

Credit strengths

Significant reduction in demand risk– Since COD, the company had a short-term 1-year PPA for power sale to BEST for its entire capacity (at preferential tariffs for biomass power plants). Recently, in March 2018, GEL has signed EPA for 7MW capacity MSEDCL (46% of installed capacity) valid till FY2025 at preferential tariff determined by MERC. The long-term EPA for the 46% of the capacity mitigates the offtake risk to a large extent.

Satisfactory generation track record – The average annual PLF levels in FY2018 remained healthy at 91.2% even though GEL witnessed moderate reduction in PLF levels from 96% in FY2017. GEL administered its major planned shutdown in May 2017 wherein the plant was idle for 15 days of the month resulting in lower PLF levels. Nevertheless, over the last three fiscals, average PLF levels have remained healthy mainly due to improved fuel availability and uninterrupted operation.

Considerable experience of promoters and the synergies developed with the presence of group-owned rice mills – With Fuel availability being a major problem for many biomass-based IPPs in India, GEL benefits from synergies with its group concerns that operate rice mills in Maharashtra. Through arrangements with the group concern, GEL hedged the short-term price fluctuations of rice husk and secured the fuel availability considerably over the last two years.

Credit weaknesses

Exposure to counterparty credit risk with stretched payment cycle – Although, as per EPA, the bill payment from MSEDCL is 60 days from the date of bill receipt, the weak financial profile and long payment track record of the counterparty. As the sustenance of the payment cycle is contingent on the health of the counterparty, it remains a key rating sensitivity factor. However, counterparty credit risk will be partially offset by the timely payments from BEST providing adequatecertainty to the part of company's cash flows.

Stretched liquidity position and expected increase in debt levels in the near term – The company's debt levels over the next fiscal is expected to increase on the back of increased working capital borrowings to fund the long payment cycles of MSEDCL. With almost full-utilization of existing working capital limits over the past 2 months, GEL's liquidity profile is expected to be stretched in the near term. Nonetheles, the company's plans for enhancing the working capital limits in the coming days is expected to provide certainity to the company's cash flows to a large extent.

Operations of the biomass power plant remain exposed to the availability and quality of the biomass fuel – Sustaining the operational profile of GEL through healthy PLFs and stable cost structure mainly depends on the availability of raw materials at robust gross calorific value. Nevertheless, with the steady supply of rice husk with the help of group synergies agricultural waste, the company was able to procure adequate biomass inputs for its fuel requirements.

Links to applicable criteria:

[Corporate Credit Rating Methodology]

About the Company:

Greta Energy Limited, incorporated in December 2008, is part of the Greta Group of Companies, founded by the Chennai-based Chaudhari family. GEL operates a 15-MW biomass-based power plant in Chandrapur district, Maharashtra. The COD was achieved in September 2012, following which the plant has been operating at healthy PLF levels. GEL has a yearly PPA with Brihanmumbai Electric Supply & Transport Undertaking (BEST) for the sale of power pertaining to 8 MW capacity and a long term EPA with MSEDCL for the remaining 7 MW valid till FY2025 at preferential tariffs prescribed by MERC.

Key Financial Indicators (Audited)

	FY2017	FY2018 (Provisional)
Operating Income (Rs. crore)	76.2	68.0
PAT (Rs. crore)	9.5	3.6
OPBDIT/ OI (%)	26.4%	16.2%
RoCE (%)	25.5%	11.5%
Total Debt/ TNW (times)	0.8	0.6
Total Debt/ OPBDIT (times)	1.4	2.0
Interest coverage (times)	5.6	4.2
NWC/ OI (%)	9.1%	9.7%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018) Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 2018 (Rs Crore)	Date & Rating in FY2018 June 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2017 July 2017	Date & Rating in FY2016 April 2016	Date & Rating in FY2015 May 2015
1	Fund-based facilitates	Long-Term	6.50	4.15	**[ICRA]BB+ (Positive)**	**[ICRA] BB+ (Stable)**	**[ICRA] BB (Stable)**	**[ICRA] BB- (Stable)**
2	Term Loan	Long-Term	11.67	11.67	**[ICRA]BB+ (Positive)**	**[ICRA] BB+ (Stable)**	**[ICRA] BB (Stable)**	**[ICRA] BB- (Stable)**
3	Long-term, Proposed facilities	Long-Term	31.83	-	**[ICRA]BB+ (Positive)**	**[ICRA] BB+ (Stable)**	**[ICRA] BB (Stable)**	**[ICRA] BB- (Stable)**

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 www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based facilitates	-	NA	-	6.50	**[ICRA]BB+ (Positive)**
NA	Term Loan	FY2012	NA	FY2020	11.67	**[ICRA]BB+ (Positive)**
NA	Proposed facilities	-	NA	-	31.83	**[ICRA]BB+ (Positive)**

Source: GEL

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