

November 14, 2019

## Sree Venkata Sreedevi Power LLP: Ratings of [ICRA]BB+ reaffirmed; Outlook revised to Negative from Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term: Cash Credit	6.30	6.20	[ICRA]BB+ reaffirmed; Outlook revised to Negative from Stable
Long term: Term Loan	3.97	3.12	
Long term: Unallocated limits	1.73	2.68	
<b>Total</b>	<b>12.00</b>	<b>12.00</b>	

### Rationale

The revision in outlook factors in Sree Venkata Sreedevi Power LLP's (SVSP) stretched liquidity position as reflected by high working capital limit utilisation during the past twelve months owing to capital withdrawals in FY2019 and increased receivables position. Further, the liquidity position is expected to be stretched in the near term with continued delays in payments from DISCOM which has been paying in ~40-90 days from the billing date during the past 6 months. The rating is also constrained by moderate financial risk profile with gearing at 1.25 times as on March 31, 2019, interest coverage ratio of 1.58 times and Total Debt/OPBDIT at 3.17 times for FY2019; and volatility in raw material costs which adversely affects the profitability given that tariffs are fixed on an annual basis. ICRA also notes the high geographical concentration owing to single location and single asset nature of operations with SVSP's biomass power plant being located in Nellore, Andhra Pradesh. Further, the rating considers the risks associated with partnership nature of the firm with possibility of capital withdrawal by the partners as witnessed in FY2019.

However, the rating positively factors in the long-term Power Purchase Agreement (PPA) entered into by SVSP with Andhra Pradesh Southern Power Distribution Company Limited (APSPDCL) for supply of power till FY2023, limiting the offtake risks for the company. The tariff is determined by the Andhra Pradesh Electricity Regulatory Commission (APERC) on an annual basis. For the current year, the applicable tariff has been set at Rs. 6.45 per unit, which is adequate given the prevailing biomass procurement rates for SVSP. The rating also takes into consideration the satisfactory operational performance of the 6 MW biomass-based power plant with healthy PLF levels of ~86% and ~88% in FY2019 and H1 FY2020 respectively.

The Negative outlook on [ICRA]BB+ rating reflects ICRA's belief that liquidity position continues to be stretched owing to high working capital cycle.

### Key rating drivers and their description

#### Credit strengths

**Long term PPA mitigates offtake risk:** SVSP had signed PPA for 6 MW capacity with Transmission Corporation of Andhra Pradesh (APTRANSCO), later transferred to Andhra Pradesh Southern Power Distribution Company Limited (APSPDCL), for 20 years from COD (October 2003) at feed-in-tariff determined by Andhra Pradesh Electricity Regulatory Commission

(APERC). The PPA is valid till September 2023 with tariff currently at Rs. 6.45 per unit for FY2020. The tariff comprises two parts - fixed charge determined based on year of commissioning while variable charge is determined on an annual basis.

**Satisfactory generation levels in FY2019 and H1 FY2020:** SVSP had achieved healthy PLF levels of 86% and 88% in FY2019 and H1 FY2020 respectively following successful resolution of technical issues witnessed in FY2018. Necessary maintenance activities were carried out at the plant resulting in improved PLF levels with average monthly generation at 3.7-3.8 Million units (MU) during the period from April 2018 to September 2019. Further, generation levels are expected to remain at similar levels in the medium term on the back of expected improvement in raw material availability at remunerative prices.

## Credit challenges

**Stretched liquidity position:** SVSP's liquidity position is stretched as reflected by high working capital limit utilisation during the past twelve months owing to high debtor and inventory levels. Further, capital withdrawals of Rs. 1.50 crore by promoters impacted the cash accruals and liquidity position in FY2019. The firm's liquidity position is expected to remain stretched owing to high working capital cycle.

**Single asset nature of operations:** The firm remains exposed to single location and single asset nature of the operations as the entire 6 MW biomass-based power project is located in Nellore district in Andhra Pradesh. SVSP is entirely dependent on power generation for its revenue and cash accruals. However, the same is mitigated to an extent by satisfactory operational performance in the last three years.

**Exposed to counter party credit risk of APSPDCL:** The PPA had been signed with APSPDCL and the payments from APSPDCL have been received in ~40-90 days from the billing date as observed during the past 6 months. However, the firm is eligible for payment of interest on any delay in payments received 30 days from the billing date by APSPDCL.

**Moderate financial risk profile:** The gearing of the firm is moderate at 1.25 times as on March 31, 2019 with debt comprising working capital borrowings, unsecured loans and term loans. The debt coverage indicators are modest as reflected by interest coverage of 1.58 times, Total Debt/OPBITDA of 3.17 times and DSCR of 1.13 times.

**Decrease in operating profitability:** Despite decrease in fuel costs during FY2019, the operating margins decreased to 13.33% in FY2019 from 17.72% in FY2018 owing to sales rebate of Rs. 1.74 crore extended to the discom to facilitate timely realization of payments. However, discontinuation of sales rebate from February 2019 and improvement in raw material availability to support improvement in operating margins in the near term. The extent of improvement in operating margins will be a key rating monitorable.

**Operations of the biomass-based power plant remain exposed to the availability and quality of the biomass fuel:** The operations of the biomass-based power plant are dependent on procurement of biomass in sufficient quantity at reasonable price and gross calorific value so that fuel cost is lower than the variable charge approved by APERC. However, the firm has not faced any major issues regarding procurement of fuel in the last two years and has maintained satisfactory generation levels due to healthy availability of biomass at reasonable prices. Also, the company has installed

a rotary dryer for processing of high-moisture fuels such as de-stoned mango seed, palm fiber, Eucalyptus bark etc. and entered into agreements with suppliers for their procurement, improving gross margins.

### Liquidity position: Stretched

SVSP's liquidity position is stretched as reflected by minimal undrawn working capital limits during the past twelve months. Improvement in free cash flows will be critical given the firm's debt repayment obligations of Rs. 0.85 crore per year. Also, enhancement in working capital limits could improve the liquidity position in the medium term.

### Rating sensitivities

**Positive triggers:** ICRA could revise the outlook on SVSP's rating to stable if there is a significant improvement in profitability and cash accruals for the firm while maintaining PLF levels, and improved liquidity position on the back of enhanced working capital limits or decrease in working capital cycle.

**Negative triggers:** Negative pressure on SVSP's rating could arise if there is a decrease in generation levels and profitability or capital withdrawals by partners results in lower-than-expected cash accruals, or stretch in working capital cycle impacts its liquidity position. Specific credit metrics that could lead to a downgrade of SVSP's rating include (1) DSCR less than 1.1 times.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

### About the company:

Incorporated in 2015 as a Limited Liability Partnership firm, SVSP operates a 6 MW (installed capacity 7.5 MW) biomass-based power project in Nellore District, Andhra Pradesh. The plant has been operational since October 2003 and was taken over from Bollineni Steel and Castings Ltd in 2015 at a purchase cost of Rs. 12.00 crore in November 2015. SVSP has an existing 20-year Power Purchase Agreement (PPA) from commercial operation date with APSPDCL, with feed-in-tariff determined by APERC, expiring in September 2023.

### Key financial indicators

	FY2018	FY2019
Operating Income (Rs. crore)	19.07	24.91
PAT (Rs. crore)	0.14	0.14
OPBDIT/ OI (%)	17.72%	13.33%
RoCE (%)	10.80%	11.59%
Total Debt/ TNW (times)	1.01	1.25
Total Debt/ OPBDIT (times)	2.93	3.17
Interest coverage (times)	1.68	1.58

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years**

		Current Rating (FY2020)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2020 14-Nov-2019	Date & Rating in FY2019 26-Jun-2018	Date & Rating in FY2018	Date & Rating in FY2017
1	Fund based/CC	Long Term	6.20	NA	[ICRA]BB+ (Negative)	[ICRA]BB+ (Stable)	-
2	Term Loan	Long Term	3.12	3.12	[ICRA]BB+ (Negative)	[ICRA]BB+ (Stable)	-
3	Unallocated Limits	Long Term	2.68	NA	[ICRA]BB+ (Negative)	[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](http://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/CC	NA	NA	NA	6.20	[ICRA]BB+ (Negative)
NA	Term loan	2015	NA	2023	3.12	[ICRA]BB+ (Negative)
NA	Unallocated Limits	NA	NA	NA	2.68	[ICRA]BB+ (Negative)

Source: Sree Venkata Sreedevi Power LLP

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