

# Infomerics Valuation And Rating Pvt. Ltd.

## Press Release

### IA Hydro Energy Private Limited

February 06, 2020

#### Ratings

| Instrument / Facility                        | Amount<br>(Rs. crore) | Ratings  | Rating<br>Action |
|--|-----------------------|--|------------------|
| Long Term Bank Facilities-<br>Term Loan      | 258.46                | IVR BBB- /Stable<br>(IVR Triple B minus with Stable Outlook) | Assigned         |
| Long Term Bank Facilities-<br>Cash Credit    | 2.90                  | IVR BBB- /Stable<br>(IVR Triple B minus with Stable Outlook) | Assigned         |
| Short Term Bank Facilities<br>Bank Guarantee | 5.00                  | IVR A3<br>(IVR Single A Three)                               | Assigned         |
| <b>Total</b>                                 | <b>266.36</b>         |  |                  |

Details of Facilities are in Annexure 1

#### Detailed Rationale

The aforesaid ratings assigned to the bank facilities of IA Hydro Energy Private Limited (IAHEPL) favorably factor in its strong parentage, availability of long term Power Purchase Agreement (PPA) with Haryana Power Purchase Centre, successful commencement of operations and improvement in financial performance in FY2019. Moreover, the ratings also factors in the re-finance of the existing term loan by Power Finance Corporation (PFC) which has already been sanctioned. However, the same is yet to get disbursed. Infomerics notices that same would be disbursed on fulfilment of certain conditions laid down by PFC. Any, significant delay in disbursement of the term loan could result in liquidity pressure for the company. However, the rating strengths are partially offset by moderate financial risk profile and risk associated with trading nature of income contributing ~ 51 % of the revenues.

#### Key Rating Sensitivities

- **Upward Rating Factor-** Disbursement of the term loan by PFC and takeover of existing loans thereby reducing the debt repayment obligation and improving the overall liquidity and financial risk profile would result in positive outlook.
- **Downward Rating Factor-** Delay in disbursement of the term loan by PFC could further results in squeezing of liquidity position of the company which may result in negative outlook.

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### **List of Key Rating Drivers with detailed description**

#### **Key Rating Strengths**

#### **Strong Parentage backed by corporate guarantee from Shri Bajrang Power and Ispat Ltd**

IAHEPL is owned and promoted by Shri Bajrang Power and Ispat Limited (SBPIL) (rated IVR BBB+ (Stable)/IVR A2) which holds ~90.46% stake and the remaining stake is held by Shri Bajrang Energy Pvt. Ltd. (8.0%) and individuals. SBPIL being the flagship company of the group was promoted by the Goel family. SBPIL is into iron and steel industry since 1991. Being an established player SBPIL has provided IAHEPL need based funding support where Rs.227 crore was infused through equity in FY18 to support the completion of the hydel power project. Further, SBPIL has extended corporate guarantee to IAHEPL. Going forward, Infomerics believes timely, need based financial support will also be extended by the parent, in case of pressure on cash flows.

#### **Availability of Long term PPA Agreement ensures revenue visibility**

IAHEPL had initially entered into a PPA agreement with Chhattisgarh State Power Distribution Company Limited (CSPDL) for a period of 35 years at an indicative tariff rate of Rs.5.25 per unit. The PPA Agreement with CSPDL had a tariff rate of Rs.5.25 per unit which was inclusive of transmission cost of power from Himachal to Chhattisgarh. Thus the net effective rate was less than Rs.4 per unit. It had terminated that PPA and then later on signed a fresh PPA agreement with Haryana Power Purchase Centre (HPCC) in May 2018 for purchase of power on behalf of Uttar Haryana Bijli Vitran Nigam (UHBVN) and Dakshin Haryana Bijli Vitran Nigam (DHBVN). The agreement has been signed for a period of 35 years for a tariff rate of Rs.4.50/ kWh ex-generating Bus for sale of power. The power is currently being sold at an interim tariff rate of Rs.3.99 per unit. The same is expected to improve to Rs.4.50 per unit from FY21. Availability of long term PPA limits the demand and pricing risk of IAHEPL. Further availability of the long term PPA agreement provides revenue visibility, driven by assured offtake of power by HPCC.

#### **Successful commencement of operations**

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IAHEPL commenced its operations and achieved COD in February'17. It has successfully completed operational record of over 2.5 years in the business. It has generated 136.19 MU in FY19 as compared to 81.67 MU during FY18 and has generated 132.97 MU during the last six months (Apr'19-Sep'19). The average PLF is ~82 % during the first half of the current financial year as compared to ~68 % in the first half of the previous financial year. Infomerics also considers that IAHEPL's has assured offtake of total production to HPCC which is a government body thereby resulting in low counterparty credit risk.

### **Improvement in financial performance in FY19**

The total operating income of the company registered a CAGR of ~1352.73 % during FY17-FY19 with a y-o-y growth of ~366.37 % in FY19. During FY19, the company has generated total revenues of Rs.99.19 crore. The sale of electricity constitutes ~48% of total which stood at Rs.47.55 crore in FY19 increased from Rs.21.26 crore in FY18. During H1FY20, IAHEPL's operating income stood at Rs.67.67 crore, of which Rs.48.34 crore was from sale of electricity. The operating margins have improved significantly as the plant load factor improved in FY19, thereby improving overall production. The improvement in production of hydroelectricity and commencement of trading nature of operations from sale of trading of import license led to overall improvement in scale of operations thereby resulting in better absorption of fixed cost.

### **Key Rating Weaknesses**

#### **Moderate Financial Risk Profile**

The financial risk profile of the company is moderate. The overall gearing and TOL/TNW of the company stood at 2.56x and 1.79 x respectively as on March 31'19 as compared to 2.53x and 1.98x as on 31st March'18. The debt protection is modest marked by interest coverage ratio of 1.34x in FY19. However, timely disbursement of loan from PFC for a significant longer tenure will provide liquidity buffer to the company.

#### **Trading nature of income contributing majority of the revenues**

During FY19, Rs.51.64 crore revenues were from sale of Import Licences which is a trading income by nature. During H1FY20, its operating income stood at Rs.67.67 crore, of which Rs.48.34 crore was from sale of electricity.

## Infomerics Valuation And Rating Pvt. Ltd.

**Analytical Approach:** Standalone

### Applicable Criteria

Rating Methodology for Infrastructure Companies

Financial Ratios and Interpretation (Non-financial sector)

### Liquidity: Adequate

The liquidity position is currently adequate, owing to cash accrual evenly matching the repayment obligation. However, the rating receives comfort from the financial flexibility of the strong parent company and instances of need based support extended to IAHEPL. Further, the re-financing of the existing loan by PFC is critical to the improvement in liquidity. Any significant delay of the term loan by PFC is a key rating monitorable.

### About the Company

Incorporated in 2017, IA Hydro Energy Private Limited (IAHEPL) is promoted by the Goel group of Raipur (Chhattisgarh) and it is the group's first venture into the hydel power industry. IAHEPL operates a hydel power plant of 36 MW (12 MW x 3 units) in the Chamba district of Himachal Pradesh in northern region which is a clean and green renewable energy source. The project achieved COD on February 18, 2017.

### Financials (Standalone):

| For the year ended* / As On | (Rs. crore)    |                |
|-----------------------------|----------------|----------------|
|                             | 31-03-2018     | 31-03-2019     |
|                             | <b>Audited</b> | <b>Audited</b> |
| Total Operating Income      | 21.27          | 99.19          |
| EBITDA                      | -1.45          | 60.78          |
| PAT                         | -43.69         | -0.94          |
| Total Debt                  | 426.93         | 427.20         |
| Tangible Net worth          | 168.57         | 166.89         |
| EBITDA Margin (%)           | -6.82          | 61.28          |
| PAT Margin (%)              | -193.60        | -0.95          |
| Overall Gearing Ratio (x)   | 2.53           | 2.56           |

\*Classification as per Infomerics' standards.

**Status of non-cooperation with previous CRA:** NA

**Any other information:** Nil

## Infomerics Valuation And Rating Pvt. Ltd.

### Rating History for last three years:

| Sr. No. | Name of Instrument/Facilities | Current Rating (Year 2019-20) |                                |                                | Rating History for the past 3 years     |   |   |
|---------|-------------------------------|-------------------------------|--------------------------------|--------------------------------|---|---|---|
|         |                               | Type                          | Amount outstanding (Rs. Crore) | Rating                         | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 | Date(s) & Rating(s) assigned in 2016-17 |
| 1.      | Term Loan                     | Long Term                     | 258.46                         | IVR BBB-/<br>Stable<br>Outlook | -                                       | -                                       | -                                       |
| 2.      | Cash Credit                   | Long Term                     | 2.90                           | IVR BBB-/<br>Stable<br>Outlook | -                                       | -                                       | -                                       |
| 3.      | Bank Guarantee                | Short Term                    | 5.00                           | IVR A3                         | -                                       | -                                       | -                                       |

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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|   |   |
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### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### Annexure 1: Details of Facilities

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|------------------|------------------|------------------|---------------|------------------------------|--------------------------|
| Term Loan        | -                | -                | May'2029      | 258.46                       | IVR BBB-/ Stable Outlook |
| Cash Credit      | -                | -                | -             | 2.90                         | IVR BBB-/ Stable Outlook |
| Bank Guarantee   | -                | -                | -             | 5.00                         | IVR A3                   |