

Press Release

Mayfair Renewable Energy Private Limited

March 12, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1	Long-Term Bank Facility- Term Loan	90.67# (Including proposed limit of Rs.55.00 crore)	IVR A- (CE)*/Stable Outlook (IVR Single A Minus [Credit Enhancement] with Stable Outlook)	Reaffirmed
	Total	90.67		

#Rs.35.67 crore outstanding as on December 31, 2019

*CE rating based on corporate guarantee from OPG Power Generation Private Limited

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Mayfair Renewable Energy Private Limited (MREPL) continues to derive comfort from its experienced sponsors with corporate guarantee from OPG Power Generation Private Limited (OPGPL). This corporate guarantee results in credit enhancement in the rating of the said instrument to **IVR A- (CE)/Stable Outlook (IVR Single A Minus [Credit Enhancement] with Stable Outlook)** against the unsupported rating of **IVR BB/Stable (IVR Double B with Stable Outlook)**. Further, the ratings also derives strength from availability of long term PPA with Hubli Electricity Supply Company Limited (HESCOM) with presence of DSCR and defined escrow mechanism against loans availed, locational advantage and Government's thrust on solar energy. However, the rating strengths continues to be constrained by its relatively nascent stage of operations, capital intensive nature of the project, dependence on climatic conditions and exposure to interest rate risk. Further, the rating also takes into account its lower-than-expected financial performance in FY19 marked by book loss incurred due to higher operational cost during the year.

Key Rating Sensitivities

Upward factors

- Stabilisation of operation and achieving projected PLF.
- Timely receipt of payments against generation invoices from HESCOM.

Downward factors

- Deterioration in the financial risk profile of the guarantor
- Reduction in PLF impacting the operating performance thereby the profitability on a sustained basis.
- Significant delays in receipt of payments from HESCOM.

List of Key Rating Drivers with detailed description

Key Rating Strengths

Strong Parentage

Mayfair Renewable Energy Private Limited (MREPL) is sponsored by OPG Power Generation Private Limited (OPGPL) belonging to OPG group, being one of the leading power generating companies in the country. OPGPL with over five decades of operation is a reputed name as a developer and operator of power plants in India with a track record of delivery and experienced management team. MREPL is currently governed by a three-member Board of Directors comprising Mr. Puneet Goyal, Mr. ES Purushotham and Mr. Ravi Gupta. Mr. Puneet Goyal and Mr. ES Purushotham who have considerable experience in the solar power sector.

Corporate guarantee from the promoters

The bank facilities of MREPL is backed by an unconditional corporate guarantee from its promoter OPGPL and pledge of 30% of shares / equity held by it in MREPL and non – disposal undertaking for the balance shareholding. Over the period MREPL has received need-based funding support from its parent company. Going forward, Infomerics believes timely, need based financial support will continue to be extended by the parent, in case of pressure on cash flows.

Locational advantage

The plant is located at Ron Taluk, Gadag District, Karnataka which is at a distance of 6 kms from the nearest substation for power evacuation located at Naregal, District Gadag, thus providing the company with locational advantage. The location is considered to be a high potential site for solar power generation.

Availability of Long term PPA with a Government body ensures revenue visibility and relatively lower counterparty credit risks

The entire 20 MW capacity of the project has been tied up with Hubli Electricity Supply Company Limited (HESCOM) for 25 years. The PPA tariff is cost competitive from the off

takers perspective which in turn substantially mitigates the counter party credit risk. Also, presence of robust payment security mechanism in PPA with HESCOM limits the counterparty risk to a certain extent. Further, HESCOM has built its own transmission line up to the project site and the power will be lifted by HESCOM itself.

Presence of DSRA and defined escrow mechanism against loans availed

The company has to maintain a debt service reserve account (DSRA) equivalent to three months of interest and principal along with the escrow structure to provide additional comfort to the lenders. The same is expected to meet any intermittent cash flow mismatch within the SPV.

Government's thrust on the solar energy

The Government of India has provided a thrust on developing renewable energy generation including solar power. The Ministry of New and Renewable Energy (MNRE) has set an ambitious target to set up renewable energy capacities to the tune of 175 GW by 2022 of which about 100 GW is planned for solar.

Key Weaknesses

Relatively Nascent stage of operations

The company commenced its operations from March, 2018 with FY19 being the first full year of operations for the company. The company is relatively at its nascent stage of operations. However, the company is expected to receive continuous support from OPG Group's vast experience in the power sector.

Capital Intensity of the project

Solar PV systems are capital intensive and is at a nascent stage in India. The cost of Rs.130.00 crore incurred for the project is a huge investment, given the fact that power project is generally having long gestation. This high capital intensity along with uncertainty associated with achievement of desired PLF makes the solar power project less competitive vis-à-vis other forms of power projects. Due to high capital outlay, the capital structure of the company remained leveraged with the overall gearing and TOL/ANW at 1.27x and 3.70x respectively as on March 31, 2019. However, the interest coverage ratio was moderate at 1.70x in FY19.

Dependence on climatic conditions

The industry is weather dependent. Only those areas that receive good amount of sunlight are suitable for producing solar energy. During daytime, the weather may be cloudy or rainy, with little or no sun radiation. This makes solar energy panels less reliable as a solution.

Exposure to interest rate risk

The project remains exposed to interest rate risk, given the single part fixed nature of tariff.

Subdued financial performance in FY19 and in 9MFY20

In its first year of operations, the company has earned a total operating income of Rs.15.72 crore. The company has incurred net loss of Rs.4.26 crore in FY19 due to its high capital charges in its initial stage of operations, though there was no cash loss and the company has earned gross cash accruals of Rs.1.29 crore in FY19. Further, the debt protection metrics also remained weak in FY19 marked by Total debt to GCA at 29.94x in FY19. However, the interest coverage ratio was moderate at 1.70x in FY19. During 9MFY20, the company has achieved a total operating income of Rs.10.97 crore.

Analytical Approach:

Credit Enhancement (CE) rating: Assessment of the credit profile of OPGPL, provider of corporate guarantee to MREPL.

Unsupported rating: Standalone

Applicable Criteria

Rating Methodology for Infrastructure Companies

Rating Methodology for Structure Debt Transaction (Non-Securitisation Transaction)

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity profile of the company is adequate as reflected by the availability of surplus cash and bank balance of Rs.3.07 crore as on December 31, 2019. Further, there is an upfront DSRA requirement of one quarter interest and instalment to be maintained by the company. The above-mentioned sources are expected to meet any intermittent cash flow mismatch within the SPV. Infomerics also factors in the presence of a reputed parent, OPGPL which can support the company in case of a shortfall in funds.

About the Company

Mayfair Renewable Energy (I) Private Limited (MREPL) is a Special Purpose Vehicle established to set up a 20MW AC/22.40 MW DC Solar PV Project at Ron Taluk, Gadag District, Karnataka. MREPL is sponsored by OPG Power Generation Private Limited (OPGPL), one of the leading power generating company operating 414 MW Thermal Power Projects in India. The other shareholders are Samriddhi Energy Private Limited and IBC Solar Venture India BV which are a part of OPG Group. MREPL has signed a long term Power Purchase Agreement (PPA) with Hubli Electricity Supply Company Limited (HESCOM) for 25 years. The nearest 110/11 KV substation for power evacuation is located at Naregal, district Gadag, which is at a distance of 6 kms from the project site. The power evacuation arrangements for the project is made in coordination with Karnataka Power Transmission Corporation Limited (KPTCL). The project was commissioned on March 28, 2018.

Financials (Standalone):

	(Rs. crore)
For the year ended* / As On	31-03-2019
	Audited
Total Operating Income	15.72
EBITDA	12.98
PAT	(4.26)
Total Debt	38.64
Tangible Net worth	(4.28)
Adjusted Net worth #	30.32
EBITDA Margin (%)	82.57
PAT Margin (%)	(26.84)
Overall Gearing Ratio (x)	1.27

**Classification as per Infomerics' standards.*

#Optionally convertible unsecured debentures (OCDs) of Rs.34.60 crore subscribed by the promoter group in FY19 have been treated as a part of Adjusted Net worth.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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	90.67#	IVR A-(CE)/Stable	IVR A-(SO)/Stable (February 14, 2019)	-	-

#Rs.35.67 crore outstanding as on December 31, 2019

*CE rating based on corporate guarantee from OPG Power Generation Private Limited

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.

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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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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	-	-	July, 2033	90.67# (including proposed limit of Rs.55.00 crore)	IVR A-(CE)*/Stable

#Rs.35.67 outstanding as on December 31, 2019

** CE rating based on corporate guarantee from OPG Power Generation Private Limited*