GMR Gujarat Solar Power Limited

Ratings

S.no	Facilities	Amount (Rs. crore)	Rating[1]	Remarks
I.	Long-term- Bank Facilities (Term Loan)	161.85 (reduced from 180.10)	CARE BBB- (Triple B Minus)	Reaffirmed
II.	Long-term- Bank Facilities (Term Loan- Subordinated Debt)	33.25 (reduced from 35.00)	CARE BBB- (Triple B Minus)	Reaffirmed
III.	Short-term- Bank Facilities	-	-	Withdrawn
	Total Bank Facilities	**195.10 (Rupees One Hundred Ninenty Five crore and Ten lakh only)**		

Rating Rationale

The ratings assigned to the bank facilities of GMR Gujarat Solar Power Limited (GGSPL) continue to factor in the satisfactory performance of the solar power plant with adequate power generation and long-term power off-take arrangement in the form of a Power Purchase Agreement (PPA) with Gujarat Urja Vikas Nigam Limited [GUVNL (rated 'CARE A+/CARE A1+')]. The ratings also factor in the group's established track record in the energy business, experienced management team, timely receipt of payments from GUVNL and favorable policy framework and demand outlook for the renewable enery sector. The ratings are, however, constrained by the susceptibility of power generation to variation in climatic condition and solar irradiation at the project site. The ratings also factor in the sizeable exposure of GGSPL towards the group companies.

Going forward, optimal power generation with timely receipts from the off-taker and any further increase in group exposure would be the key rating sensitivities.

CARE has withdrawn the ratings assigned to the short-term bank facilities of GMR Gujarat Solar Power Limited (S.no III) with immediate effect as per the company's request since the company has not raised any funds under the aforementioned short-term bank facilities.

Background

GGSPL was incorporated on March 26, 2008, as a private limited company in March 2008 as GMR Gujarat Solar Power Private Limited. The company was converted into a public limited company w.e.f. June 09, 2016, and was named GMR Gujarat Solar Power Limited. GGSPL is promoted by GMR Energy Limited belonging to the GMR Group. GGSPL has set-up a 25-MW grid interactive solar power project based on crystalline photo voltaic (PV) technology at Gujarat Solar Park, located at Village Charanaka, District Patan, Gujarat. The plant was successfully commissioned and achieved Commercial Operation on March 04, 2012. GGSPL is ISO 9001:2008 (Quality Management System), ISO 14001:2004 (Environmental Management System) and OHSAS 18001:2007 (Occupational Health and Safety Management) certified.

GGSPL has signed PPA for the entire power production for 25 years with GUVNL, in December 2010 under the Gujarat Solar Policy 2009. The project was completed at a total capital expenditure of Rs.366 crore (Rs.14.6/MW) funded with term-loan of Rs.226.4 crore, equity contribution of Rs.73.6 crore, unsecured loan from promoters (ICD) Rs.18.4 crore and balance through suppliers credit (Rs.48 crore).

Credit Risk Assessment

Experienced promoters and strong execution capabilities in power projects

GGSPL is part of GMR group. The group founded in 1978 and promoted by Mr G.M. Rao is a leading business house having interest in infrastructure sector with presence in energy, road, airport, and SEZs. GGSPL is a special purpose vehicle (SPV) promoted by the GEL which holds 100% stake in the company. GEL is an operating cum holding company for all power and coal mining assets in India and abroad of the GMR group. The group has demonstrated ability to execute and successfully commission power projects in the past. GEL has a portfolio of 10 operating power plants of aggregate installed capacity of 2486 MW and is implementing power projects with aggregate capacity of approximately 2968 MW under various stages of implementation. However, GGSPPL is the group's maiden venture into solar power projects.

Satisfactory generation levels

GGSPPL successfully commissioned the 25-MW solar PV power plant and achieved COD on March 04, 2012. Since commissioning, the project has been delivering satisfactory generation levels with consistent CUF. The generation has marginally declined to 42.51 MU in FY16 (refers to the period April 1 to March 31) from 42.65 MU in FY15. Effectively CUF was 19.36% in FY16 (FY15: 19.46%).

[1]Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications

Operations and maintenance (O&M) risk

The Engineering, Procurement and Construction (EPC) for the project was handled by Indu Projects Limited (IPL) for 20MW capacity and Photon Energy Systems Limited (PESL) for 5 MW capacity. The EPC contractors IPL and PESL are also responsible for operation and maintenance (O&M) of the plants for a period of 5 years post COD (i.e. from March 2012 to March 2017). The O&M contract has been awareded for Rs.8.9 crore for 5 years. The O&M activity mainly consist of visual inspection and replacement of damaged modules, inverters, transformers, cabling, etc, and cleaning of module glass surfaces at regular intervals. The O&M contract may be extended further on mutual agreement. Both IPL and PESL have considerable experience in executing and maintaining solar power projects.

Long-term power purchase agreement with GUVNL

GGSPPL has signed a PPA with GUVNL for supply of 25 MW power on December 08, 2010, for a period of 25 years under the Gujarat Solar Policy 2009 framework. GUVNL would purchase power at a tariff of Rs.15 per kWh for the first 12 years and Rs.5 per kWh for the remaining years. GUVNL makes good the payment in about a months' time and all the invoices raised by GGSPPL have been honored in entirety.

In case of any event of default by GUVNL and consequent termination of PPA, GUVNL shall be liable to make payment within 30 days from the date of termination, towards compensation to GGSPPL equivalent to three years billing based on first year's tariff. During the suspension period or after termination, GGSPPL can sell its generation to any HT customers of the state or any third party customers under Open Access, at market price.

Moderate financial risk profile

The financial risk profile of the company stood moderate in FY16. The PBILDT margin improved marginally to 72.67% in FY16 from 70.96% in FY15 and reported a higher PBT of Rs. 9.33 crore in FY16 from Rs. 6.79 crore in FY15, the improvement can largely be attributed to lower expenditure in FY16. The company reported loss at net levels due to deffered tax expense due to difference in depreciation as per income tax and companies act. However, the cash accruals improved in FY16 and stood healthy at Rs. 22.08 crore in FY16 from 19.62 crore in FY15. The coverage indicators also improved in FY16 due to scheduled repayment of debt with total debt to GCA at 11.99x as on March 31, 2016, against 14.35x as on March 31, 2015. However, the overall gearing remained high at 3.15x as on March 31, 2016 (FY15: 3.08x) due to high debt levels and marginal decline in networth due to losses in FY16.

In FY15, GGSPL availed additional debt for supporting of the group company, however, the same was not utilized and remains in cash and cash equivalents as on March 31, 2016. During FY16, the company also has reduced the expenditure towards related parties, which remain relatively high. Going forward, the related parties transaction shall be key monitorable.

Operations exposed to climactic conditions and technological risks

Achievement of desired CUF going forward would be subject to changes in climatic conditions, amount of degradation of modules as well as other technological risks. The solar project is based on crystalline silicon technology which has a proven history worldwide, suffers relatively lower degradation and requires lesser land leading to reduction in the Balance of Systems (BoS) cost. Though the company has used crystalline technology, which has a proven track record in global markets, there is a lack of long-term track record of performance of the solar modules in Indian conditions.

Government led reforms and incentives resulting in favorable terms for producers

Encouraging policy framework in the renewable energy (RE) sector has resulted in the share of installed capacity of RE rising from 5.9% of total energy capacity (approximately 7.7 GW of 132 GW) as on March 31, 2007 to around 14.4% (approximately 42.75 GW of 298 GW) as on March 31, 2016. India has an attractive geography for solar energy. Solar radiation is about 5,000 trillion kWh/year and most parts enjoy 300 clear sunny days a year. Solar power sector's cumulative installed capacity has increased from around 35 MW as on March 31, 2011 to around 6.76 GW as on March 31, 2016. The major drivers for the growth in solar capacity addition have been various government initiatives and policies (both Central and respective States) including feed-in-tariffs and renewable purchase obligations (RPO), decline in equipment cost over the years, technological advancement, shorter implementation schedules and lower fuel availability risks as compared to conventional sources of energy.

As per the National Solar Mission Scheme, cumulative solar installed capacity was projected to reach 20 GW by 2022, which has been significantly revised to 100 GW (including 40 GW rooftop projects) by 2022. Various state governments such as Gujarat, Madhya Pradesh, Karnataka, Rajasthan, Tamil Nadu, Orissa, Andhra Pradesh, Uttar Pradesh, Punjab, etc, have come out with state policies for awarding solar power projects. Also, other entities like NTPC, SECI etc. are coming out with tenders of large capacities in GW size. Solar projects have relatively lower execution risks, stable long-term cash flow visibility with long-term off-take arrangements at a fixed tariff and minimal O&M requirements. While weak financial health of discoms, stricter RPO enforcement by the state regulators and level of degradation of the modules given relatively lesser track record of technology in Indian conditions remain crucial; given the thrust by the government for RE capacity addition, rising cost of conventional energy assets vis-à-vis declining cost of solar assets, relatively faster execution cycle and distributed nature of solar energy, the outlook is positive for the solar sector.

Financial Performance

For the period ended / as on March 31	2014 (12m, A)	2015 (12m, A)	2016 (12m, A)
Working Results			
Total Operating income	63.81	64.06	67.70
PBILDT	49.30	45.46	49.19
Interest	26.45	25.14	26.13
Depreciation	18.74	14.19	14.81
PBT	4.78	6.79	9.17
PAT (after deferred tax)	3.82	5.43	(7.16)
Gross Cash Accruals	22.56	19.62	22.08
Financial Position			
Equity Capital	73.60	73.60	73.60
Net-worth^	104.29	109.72	102.56
Total Debt	243.95	263.13	246.39
Adjusted Total Debt*	195.95	215.13	198.39
Key Ratios			
Profitability			
PBILDT/Total Op. income (%)	77.25	70.96	72.67
PAT (after deferred tax)/ Total income (%)	5.99	8.48	NM
ROCE (%)	9.46	8.85	9.64
Solvency			
Long-term Debt Equity ratio (times)	2.34	2.40	2.40
Overall gearing ratio (times)	2.34	2.40	2.40
Adjusted overall gearing ratio (times)*	1.88	1.96	1.93
Interest coverage (times)	1.86	1.81	1.88
Term debt/Gross cash accruals (years)*	8.68	10.96	8.99
Total debt/Gross cash accruals (years)*	8.68	10.96	8.99
Liquidity			
Current ratio (times)	0.93	2.76	2.36
Quick ratio (times)	0.93	2.76	2.36
Turnover			
Average collection period (days)	15	31	16
Average creditors (days)	204	132	86
Average inventory (days)	0	0	0
Operating cycle (days)	-189	-102	-70

**Treating suppliers credit of Rs. 48 crore as neither debt not equity*
^Net-worth includes unsecured loans from promoters (ICD) of Rs. 18.40 crore as they are repayable only after the repayment of the term loans.

Details of Rated Facilities
1.Long-term facilities
1.A. Secured rupee term loans

Sr. No.	Lender	Rated Amount (Rs. Crore)	Remarks
1.	IDBI Bank	54.43	Outstanding
2.	EXIM Bank	53.71	Outstanding
3.	IDFC Bank	54.43	Outstanding
	Total Facility	**161.85**	

1.B. Subordinated rupee term loans

Sr. No.	Lender	Rated Amount (Rs. Crore)	Remarks
1	ICICI Bank	33.25	Outstanding
	Total Facility	**33.25**	

Total Long-term facilities (1.A.+1.B.): Rs.21.72 crore

Total facilities rated: Rs.195.10 crore

Analyst Contact
Name: Mr Sudhir Kumar
Tel: 011-45333232
Email: sudhir.kumar@careratings.com

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CONTACT
Head Office Mumbai

Mr. Saikat Roy
Mobile: + 91 9820998779
E-mail: saikat.roy@careratings.com

Mr. Amod Khanorkar
Mobile: + 91 9819084000
E-mail: amod.khanorkar@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022.
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com | Website: www.careratings.com

REGIONAL OFFICE

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Dinesh Sharma
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-99000 41975
Tel: +91-80-4115 0445, 4165 4529
E-mail: dinesh.sharma@careratings.com

CHANDIGARH
Mr. Sajan Goyal
2nd Floor, S.C.O. 196-197, Sector 34-A,
Chandigarh - 160 022.
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Cell: +91-98407 54521
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, PashupatiAkshatHeights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110; Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677; Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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