

## Fatehabad Bio Energy LLP

January 03, 2023

### Rating

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	54.75	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
<b>Total Bank Facilities</b>	<b>54.75</b> <b>(₹ Fifty-Four Crore and Seventy-Five Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

Rating assigned to Fatehabad Bio Energy LLP considers delay in execution of project, small scale of operations, working capital intensive nature of business, volatility in the supply and cost of paddy straw all-round the year and initial phase of plant's operation as generation has begun in December 2022. The rating draw comfort from experience of promoter in execution of bio energy power plant, operations of the same and long-term power purchase agreement with reputed distribution utility in Haryana.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Timely completion of balance project work and ramp up in the capacity to PLF of 75% in FY23 and 80% in FY24
- Timely receipt from off-taker viz HPPC within 30 days on a sustained basis.

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Any further delay in stabilisation of operation at the plant and thus generation of power,
- Delay in receipt of payments from the off-taker viz HPPC beyond 75 days on a sustained basis.
- Lower than envisaged levels of generation leading to moderation in profitability and debt coverage indicators.

### Detailed description of the key rating drivers

#### Key rating weaknesses

**Raw material sourcing and price volatility risks:** The availability and pricing of biomass power is subject to significant supply and demand factors. On the supply side, availability of paddy straw is critically dependent on the production of the underlying crop, which can often be volatile and determined by agro-climatic conditions and cropping patterns. This in turn exposes biomass-based plants to seasonal volatility in fuel prices, which are not suitably accounted for in the tariff structure. On the demand side, biomass-based power plants face competition from not only other biomass power plants but also from several alternative users like brick kiln manufacturers amongst others. Increased use of biomass by various users has resulted in increase in biomass prices in most regions of the country, while tariffs in most states have not been adjusted adequately to reflect the increased cost of generation. Furthermore, increase in fuel cost not adequately being compensated by hike in tariff creates a regulatory risk to the company's cash flows. The company has proposed to set up 10 paddy straw collection centres in the radius of 25-30 km from the plant. Currently 7 collection centres are operationalised and understood to have supporting with required fuel i.e., paddy straw.

**Working capital intensive operations projected:** FBEL's operating cycle is projected to be 336 days in FY24 which is first full year of operation because of higher inventory days of 275 days. The average inventory period is projected to remain high at 300 days for the period from FY24 to FY30. The company is expected to procure paddy straw during October-November for entire year leading to longer inventory holding period at the year end. Paddy straw may remain available in the other seasons however the prices are expected to remain high as compared to post harvest period.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Project risk:** The company has undertaken a project to set up paddy straw fired biomass power plant. The capacity of the plant is 9.9 MW. It located in village Dullat of Fatehabad district in Haryana. The total project cost is ₹ 63.10 crore in which is funded by SBI term of ₹ 35.00 crore and balance from promoters' equity. The project was envisaged to be generate power from January 2021 i.e., 24 months from the date of PPA with HPPC. However, the project has seen several delays because of lockdowns enforced for containing spread of Covid-19 during three waves. FBEL has applied in July 2021 to extend COD for the said project. HPPC, pursuant to this application had extended the COD till December 24, 2021. It is understood that generation has begun from December 11, 2022, i.e., after time overrun of around 2 years. The cost overrun against planned cost has been of ₹ 4.64 crore which was funded by the promoters of the company. Stabilisation of plants operation and generation of power at planned level of 75% till March 2023 and 80% thereafter is key rating sensitivity.

### **Key rating strengths**

**Healthy revenue visibility backed by long-term PPA with HPPC:** FBEL has entered in a PPA with Haryana Power Purchase Centre (HPPC) for the period of 20 years for complete off-take of power thereby mitigating the power off-take risk to a significant extent. The tariff under the said PPA is ₹ 7.29/kWh. The PPA executed on February 22, 2019, with HPPC mandated commencement of commercial operations in January 2021 and has extension clause inbuilt to extend evacuation of power for 10 years post expiry of original tenor of 20 years. It is understood that credit period provided to HPPC for payment against monthly invoices raised on first day of next months is of 30 days. Payment realised from the off taker in the sister concern viz., Sri Jyoti Renewable Private Limited (SJREPL) is not available to comment upon.

**Limited Counter party credit risk:** Considering long term PPA with HPPC that purchases power on behalf of Uttar Haryana Bijli Vitran Nigam and Dakshin Haryana Bijli Vitran Nigam, the counterparty risk is limited. Both UHBVNL and DHBVNL are rated as IND A-/ Stable backed by the rating of the Government of Haryana. In the past there has been instance of deduction of payments for power supplied by SJREPL to HPPC. However, SJREPL has been able to recover the entire deducted amount of ₹ 3.27 crore after seeking justice in court of law. PPA incorporates a clause to provide a Letter of Credit by HPPC to FBEL as a payment security which is equivalent to one month's average payment against supply of power made by FBEL and can be cashed out at bank in case of delay in payment of dues by HPPC on the next working day of the due date.

**Experienced promoters:** Fatehabad Bio Energy LLP (FBEL) is promoted by Mr. Srinivas Sanapala. Mr. Srinivas Sanapala has worked in past with McKinsey and Ernst & Young (E&Y) in Mergers and Acquisitions, Project, and General management divisions. Sanapala family prior to entering the renewable energy space was engaged in trading of wood to paper industry. The group is also known as Jyoti Group. Mr. Srinivas is also promoter of Sri Jyoti Renewable Energy Private Limited (SJREPL). SJREPL is engaged in operating a biomass power plant that uses mustard husk, cotton stalk and other biomass available in the region. Existing 9.5 MW is located at Bhiwani district in Haryana and was commissioned in October 2014. The power generated from this plant is supplied to HPPC since inception. The promoters have been using in house expertise to operate and manage the power plant since October 2014.

**Liquidity:** Not applicable (Project stage entity)

**Analytical approach:** Standalone

### **Applicable criteria**

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Power Generation Projects](#)

[Thermal Power](#)

### **About the company**

Fatehabad Bio Energy LLP (FBEL) is promoted by Mr. Srinivas Sanapala. Mr. Srinivas Sanapala has worked in past with McKinsey and Ernst & Young (E&Y) in Mergers and Acquisitions, Project, and General management divisions. Sanapala family prior to entering the renewable energy space was engaged in trading of wood to paper industry. The group is also known as Jyoti Group. FBEL is in process setting up biomass fired power plant with capacity of 9.9 MW at Fatehabad district in Haryana. It is understood that company has achieved COD on December 11, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1-FY23 (UA)
Total operating income	NA	NA	NA
PBILDT	NA	NA	NA
PAT	NA	NA	NA
Overall gearing (times)	NA	NA	NA
Interest coverage (times)	NA	NA	NA

A: Audited, NA: Not available

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

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	12.50	CARE BB-; Stable
Fund-based - LT-Term Loan		-	-	30-11-2026	7.25	CARE BB-; Stable
Fund-based - LT-Term Loan		-	-	28-02-2032	35.00	CARE BB-; Stable

#### Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	35.00	CARE BB-; Stable				
2	Fund-based - LT-Cash Credit	LT	12.50	CARE BB-; Stable				
3	Fund-based - LT-Term Loan	LT	7.25	CARE BB-; Stable				

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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