NSL Wind Power Company (Satara) Private Limited

January 06, 2023

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	130.69 (Reduced from 142.84)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)
Total Bank Facilities	**130.69 (₹ One Hundred Thirty Crore and Sixty-Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in rating assigned to the bank facilities of NSL Wind Power Company (Satara) Private Limited (NSPL) is primarily on account of continued delay in receipts of payments from Maharashtra State Electricity Distribution Limited Company (MSEDCL) albeit improved to less nine months leading to cashflow mismatch resulting in strain in liquidity, further repayment of unsecured loans in FY22 and H1FY23. The rating continues to be constrained by single counter-party credit risk with relatively weak profile of off-taker, interest rate fluctuation risk, leveraged capital structure albeit improvement and exposure to variation in wind conditions and technological risk. The rating, however, derives strength from long track record of promoter group in diversified business, long term Power purchase Agreement (PPA) with MSEDCL, improved Plant Load Factor (PLF) level in FY22 [FY refers to the period April 01 to March 31], stable total operating income (TOI) and profitability in FY22, structured payment mechanism for the debt servicing with defined waterfall and financial covenants, eligibility for generation-based incentive (GBI) for entire capacity from Indian Renewable Energy Development Agency (IREDA), presence of long term Operation and Maintenance (O&M) arrangement and stable industry outlook.

The rating also factors in improved operational and financial performance during H1FY23 with power generation above P-90 level.

Rating sensitivities

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

- Improvement in the financial health of MSEDCL / timely and consistent receipt of payments from MSEDCL with receivable period remaining below 180 days on consistent basis

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

- Sustenance of elongated receivable days leading to further deterioration in liquidity profile of company
- Continued withdrawal of surplus liquid funds available which might impact the cash-flows, given relatively weak financial risk profile of off-taker

Detailed description of the key rating drivers

Key rating weaknesses

Single counter-party credit risk and build-up of receivables during current fiscal: Given the entire off-take with a single distribution utility (MSEDCL), the company continues to be exposed to counter-party credit risk. MSEDCL has relatively weak credit risk profile and NSPL had been facing issues in the past with regard to delayed payments from MSEDCL which gradually started to improve from H1FY23. The company has not recovered dues for bills raised for the period March 2022 to September 2022. The receipt of receivables within the envisaged timeline will be important from liquidity perspective and will be key monitorable. MSEDCL is clearing dues of 2 months each in one instance which has been observed in H1FY23.

Repayment of unsecured loans: NSPL has been utilizing its surplus cash available to repay unsecured loans to promoters/holding company and during FY22, it repaid unsecured loans aggregating Rs.10.06 crore (Rs.2.31 crore in FY21) by dipping in the liquid cash available. The same resulted in reduction in surplus liquidity as on March 31, 2022, and continuation of such repayment might impact the cash-flow position, going forward. Further, in H1FY23, NSPL repaid Rs.0.85 crore.

Leveraged capital structure and debt coverage indicators albeit improvement: NSPLs capital structure marked by overall gearing ratio of 3.46x as of March 31, 2022, improved from 4.40x as on March 31, 2021 on account of repayment of scheduled instalments of term loans and repayment of unsecured loans during FY22. However, the same continues remain

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

leveraged. As on March 31, 2022, the debt profile of NSPL comprised of long-term loans of Rs.128.33 crore and interest-bearing unsecured loans of Rs.18.18 crore from holding company, NSL Renewable Power Private Limited (NRPPL). Further, NSPL also has sanctioned cash credit limit of Rs.8.00 crore which has been sparingly utilized during last 12 months ended Nov 2022. The unsecured loans from NRPPL are subordinated to the senior debt although they can be withdrawn with lenders approval subject to fulfilment of financial covenants. Based on the same, Rs.10.06 crore of unsecured loans had been withdrawn by the company during FY22 and Rs.0.86 crore in H1FY23. Thus, as on September 30, 2022 the unsecured loan stands at Rs.17.32 crore. With delay in payment from MSEDCL during the current year, the continued withdrawal of available surplus liquid funds might impact the cash flows and would remain key monitorable.
The other debt coverage parameters like PBILDT Interest coverage ratio and total debt/GCA remained stable during FY22 to 1.88x (1.89x in FY21) and 8.70x as of March 31, 2022 (8.76x as of March 31, 2021) respectively.

Interest rate fluctuation risk: The term loans availed by NSPL for the projects are floating in nature. However, as per PPAs, the tariffs are fixed, thereby exposing the company to the risk of any change in cost factors. The interest cost being the primary cost component on cash basis, any adverse movement in interest rates would impact the overall debt-servicing ability of the company.

Exposure to variation in wind conditions: Wind power in India is highly seasonal, with the majority of generation taking place during the summer and monsoon season. NSPL's wind power operations are highly dependent on availability of strong winds. A significant proportion of wind energy generation (80-85%) takes place between April to October. During the off-season stretching from November to March, wind generation dips significantly contributing the 15-20% of the wind generation.

Key rating strengths

Long track record of promoters in diversified business: NSPL belongs to Hyderabad based NSL group. The NSL Group is a well-diversified group, with business interest in seeds, power generation, textiles, cotton, and sugar and power equipment business. Nuziveedu Seeds Limited the flagship company of the NSL group, was established in year 1973 by Mr. M Venkatramaiah, as a sole proprietorship concern. The group is currently managed by his son and the present Chairman and Managing Director of NSPL, Mr. M Prabhakar Rao, who took over the reins of NSL Group in 1982.

Long-term Power Purchase Agreements (PPAs) with MSEDCL: NSPL has tied up for power off-take with Maharashtra State Electricity Distribution Company Limited. The company has entered into long-term Power Purchase Agreements (PPAs) with the state DISCOM for the entire operating capacity (34.50 MW) at a tariff of Rs.5.81/KwH (applicable for Wind Zone-1). However, the PPA ends on March 31, 2027, post which there prevails risk of untied capacity.

Improved operating efficiency in FY22 and H1FY23: NSPL successfully commissioned the operation of its wind turbine generators (WTG) as on March 31, 2014. During FY22, the company supplied around 78.07 MU (75.48 MU in FY21) of power achieving an annual average net PLF of 25.44% (23.20% in FY21) which is marginally higher than P-75 Level PLF of 25.40%. Further, the grid availability remained at satisfactory level of 99% in FY22. However, machine availability stood at 96% in FY22 due to preventive maintenance undertaken during the month of October 2020 to January 2021.
During H1FY23, the company supplied around 60.55 MU (about 59.34 MU in H1FY22) of power at marginally higher average PLF of 39.84% (38.53% in H1FY22). April to September period is considered as the peak wind season due to which the average PLF remains high during this period. NSPL reported total operating income of Rs.34.92 crore and PBILDT of Rs.31.35 crore in H1FY23.

Stable operating income in FY22 and the same continues in H1FY23: The total operating income of NSPL remained stable in FY22 to Rs.47.48 crore from Rs.47.09 crore in FY21. The company undertook a O&M work in FY22 which resulted in increased O&M expenses impacting the profitability. The PBILDT margin of NSPL declined by 782 bps to 79.11% in FY22 (86.93% in FY21) due to increase in cost of building & machinery repair. Further, the PAT level and margin of NSPL declined by about 25.42% and 450 bps in FY22. NSPL generated cash accrual of Rs.17.76 crore in FY22 as against Rs.19.73 crore in FY21.
However, in H1FY23 with increase in net exported energy, the company reported income of Rs.34.92 crore with a PBIDLT of Rs.31.35 crore along with operating margin of 89.78% and PAT (Profit after tax) of Rs. 17.19 with PAT margin of 49.23%.

Structured payment mechanism for the debt servicing: The company operates a TRA wherein all the deposits from scheduled receivables shall be utilized as per waterfall mechanism designated to priority usage categories such as statutory dues, O&M expenses, interest and principal repayments, DSRA build up, cash sweeps to term loan etc. As on October 31, 2022, the company had a DSRA balance of Rs.18.75 crore, equivalent to 2 quarters of debt servicing as per the terms of sanction which are kept in the form of mutual funds.

Eligibility for generation-based incentive (GBI) for entire capacity from IREDA: The company is eligible for generation-based incentives (GBIs) under Indian Renewable Energy Development Agency [IREDA]. The company has registered total capacity of 34.50 MW for GBI as per registration certificate issued by IREDA on June 20, 2014. The company receives GBI on half yearly basis. During FY22, NSPL booked Rs.3.72 crore (Rs.3.64 crore in FY21) GBI income in the books. Furthermore, NSPL has also claimed GBI income of Rs.0.11 crore for the period H1FY23.

Presence of long-term O&M arrangement: NSPL has entered into an O&M Agreement with M/s ReGen Powertech Private Limited (RGPL) on June 12, 2014, which is effective from the date of commissioning of each Wind Turbine Generator (WTG). RGPL has technical collaboration with Vensys AG, Germany and the O&M contractor will provide both preventive and breakdown maintenance of the WTGs and related equipment including replacement of parts and components as required in case of breakdown/failures and to ensure the smooth operation of the wind power project.

Stable Industry Outlook: India has an installed renewable capacity of around 110 GW (excluding large hydro) as on March 31, 2022, comprising solar power of 54 GW, wind power of 40 GW, small hydro of 5 GW and other sources including biomass of 11 GW. There has been a significant traction in solar power installations over the last few years and the cumulative solar power capacity has surpassed the installed wind power capacity, despite its late and slow start. The overall renewable energy installations have increased at a CAGR of 17% from FY16-FY22. Over the years, the renewable energy industry has benefitted on account of Government's strong policy support, India's large untapped potential, presence of creditworthy central nodal agencies as intermediary procurers and improvement in tariff competitiveness. Going forward, with India setting up an ambitious target of achieving 450-GW renewable capacity by 2030, the regulatory framework is expected to remain supportive. However, developers are expected to face challenges in the near term on account of rising cost of modules, turbines and other ancillary products along with imposition of basic custom duty on cells and modules from April 2022 onwards which is expected to drive up costs and result in increase in bid tariffs for new projects. This apart, challenges for acquisition of land and availability of transmission infrastructure also remains a key bottleneck. However, the Indian renewable industry continues to be a preferred investment alternative for both domestic as well as foreign investors and is expected to post robust growth going forward as well which results in CARE Ratings assigning a Stable outlook to the industry.

Liquidity: Adequate
The company has adequate liquidity position along with maintenance of DSRA of Rs.18.75 crore as on October 31, 2022, maintained in the form of mutual funds which covers debt obligation of 2 quarters. This apart, NSPL also has a sanctioned working capital limit of Rs.8.00 crore to meet any exigencies. The limits are sparsely utilised. Furthermore, NSPL had cash and bank balances of Rs.1.04 crore as of September 30, 2022. NSPL has been facing delay in receipt of payment from MSEDCL which has impacted the liquidity position of the company and the company is managing its cashflow with available cash & liquid investments. The repayments shall be met through combination of available cash and working capital limits. Going forward, timely receipt of payment from MSEDCL would be important from a liquidity perspective.

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
Power Generation Projects
Wind Power Projects

About the company
NSL Wind Power Company (Satara) Private Limited (NSPL) is a special purpose vehicle (SPV) incorporated in 2010 for setting up 34.50 MW Wind Power project in Chilarewadi village, Satara district in the state of Maharashtra. The company achieved commercial operation of wind turbine generators in phases starting from January 2014 and complete capacity was commercialized in March 2014. The project was set up at a total cost of Rs.230.59 crore funded through debt of Rs.155.45 crore and promoters fund Rs.75.14 crore (equity of Rs.14.79 crore and balance unsecured loans). The company has been promoted by Hyderabad based NSL Group through NSL Renewable Power Private Limited (NRPPL) which is the holding company for all renewable energy power projects of NSL Group.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	45.98	46.96	34.92
PBILDT	39.83	37.04	31.35
PAT	8.14	6.07	17.19*
Overall gearing (times)	4.48	3.46	2.24
Interest coverage (times)	1.84	1.85	3.30

A: Audited; UA: Unaudited
* Considering tax rate at 25.20%, PAT remains at Rs.12.86 crore

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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	8.00	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	September 2031	122.69	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	122.69	CARE BB+; Stable	1)CARE BBB-; Negative (04-Apr-22)	-	1)CARE BBB; Negative (17-Feb-21)	1)CARE BBB; Stable (26-Dec-19)
2	Fund-based - LT-Cash Credit	LT	8.00	CARE BB+; Stable	1)CARE BBB-; Negative (04-Apr-22)	-	1)CARE BBB; Negative (17-Feb-21)	1)CARE BBB; Stable (26-Dec-19)

*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 for any clarifications.

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