Malwa Power Private Limited

October 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	7.00	CARE BBB; Stable	Reaffirmed
Long-term bank facilities	0.33 (Reduced from 0.74)	CARE A- (CE); Stable	Upgraded from CARE BBB+ (CE); Stable

Details of instruments/facilities in Annexure-1.

Unsupported rating	**CARE BBB [Reaffirmed]**

Note: Unsupported rating does not factor in the explicit credit enhancement.

Rationale and key rating drivers for credit enhanced debt

The long-term (Term loan) rating of Malwa Power Private Limited (MPPL) is based on credit enhancement (CE) in the form of unconditional and irrevocable corporate guarantee provided by DEE Development Engineers Limited (DDEL). The revision in rating assigned to the term loan factors in revision in ratings of corporate guarantor DDEL.

Rationale and key rating drivers of DEE Development Engineers Limited (Corporate Guarantor)

The revision in ratings assigned to the bank facilities of DEE Development Engineers Limited (DDEL) factors in improvement in the company's capital structure and liquidity position post successful funds raising through initial public offer (IPO) in June 2024. DDEL received net proceed of ₹297.13 crore from IPO, which was largely utilised towards reduction of the company's working capital borrowings, which improved the capital structure. Total debt reduced from ₹553.24 crore as on March 31, 2024, to ₹317.93 crore as on June 30, 2024. Revision in ratings also factor in growth in total operating income and gross cash accruals in FY24 (refers to April 01 to March 31) and Q1FY25 (refers to April 01 to June 30) considering better project execution and healthy unexecuted order book position of ₹1076.84 crore reflecting 1.66x of the last year's total operating income(TOI) . Ratings continue to derive strength from long-standing experience of its promoters, reputed client base and improving financial risk profile bolstered by IPO fuelled deleveraging efforts.

However, ratings strengths continue to remain constrained by substantial exposure towards wholly owned subsidiaries which are in process of scaling up the operations. Ratings also continue to remain constrained considering working capital intensive operations indicated by elongated collection period, exposure towards volatile raw material prices and project execution and stabilisation risk.

Key rating drivers of MPPL (Standalone and Unsupported Ratings)

The reaffirmation in the rating assigned to bank facilities of MPPL derives strengths from the satisfactory financial risk profile characterised by steady revenue profile, long standing relationship with PSPCL, comfortable overall gearing, and debt coverage indicators during FY24 (refers to April 01 to March 31). However, rating strengths continue to remain constrained by biomass availability and volatility in fuel cost, working capital intensive operations and exposure to counterparty default risk.

Rating sensitivities: Factors likely to lead to rating actions (DDEL- Corporate Guarantor)

Positive factors

- Improving operating cycle to below 150 days on a sustained basis.
- Improving order book position to over 2x providing revenue visibility while sustaining profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 13%.
- Operations in all subsidiaries becoming self- sustainable.

Negative factors

- Further elongating operating cycle beyond 250 days adversely impacting the company's liquidity position.
- Operating margins declining below 10% on a sustained basis.
- Diminishing order book reported below ₹500 crore and/or gross cash accruals (GCA) below ₹40 crore on a sustained basis.
- Higher-than-envisaged increase in exposure towards subsidiaries or debt funded exposure undertaken by the company.

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

Rating sensitivities: Factors likely to lead to rating actions (MPPL)

Positive factors

- Reporting gross CUF level above 95% on a sustained basis.
- Timely receipt of payments from off-taker PSPCL within 60 days leading to improvement in the company's liquidity position .
- Extension in PPA for next 10 years at a remunerative tariff with PSPCL.

Negative factors

- Delaying receipt of payments from off-taker, PSPCL beyond 100 days on a sustained basis.
- Lower than envisaged CUF levels below 80% of generation leading to moderating profitability and debt coverage indicators.

Analytical approach (Corporate Guarantor-DDEL): CARE Ratings Limited (CARE Ratings) has conducted guarantor DDEL's assessment on standalone basis after factoring in the exposure towards the subsidiary companies.

Analytical approach (MPPL):
Credit enhancement rating: CE in the form of unconditional and irrevocable corporate guarantee of DEE Development Engineers Limited.

Unsupported and Standalone ratings: Standalone .

Outlook: Stable
Stable outlook reflects CARE Ratings' opinion that the company will continue to generate sustained revenue and cash accruals basis revenue visibility through tied up capacity under PPA with PSPCL and satisfactory financial risk profile with low long-term debt obligations.

Detailed description of key rating drivers (DDEL- Corporate Guarantor):

Key strengths

Improvement in capital structure and liquidity position supported by funds raised through IPO
DDEL's financial risk profile has improved considering infusion of funds in the form of equity, through initial public offer on June 26, 2024. DDEL received net proceed of ₹297.13 crore from IPO, 58.90% of which shall be utilised for repayment of working capital debt, 25.24% for working capital purposes of the company and remaining 15.86% for general purposes. Infusion of funds resulted in significant improvement in capital structure and DDEL's liquidity position with overall gearing improving from 1.12x as on March 31, 2024, to ~0.40x on June 31, 2024 (post infusion). Moreover, the company's liquidity position also improved with unutilised IPO funds amounting ₹47.13 crore and reduction in the external working capital borrowings, creating sufficient gearing headroom to raise additional debt.

Growth in scale of operations and improvement in profitability in FY24 and Q1FY25
DDEL reported healthy growth of 27.38% in TOI to ₹648.97 crore in FY24 from ₹509.46 crore in FY23 largely considering better project execution. The company also operates a biomass power plant situated at Abohar, Punjab contributing ~6.53% of TOI in FY24 (PY: 7.80%) supplying power to Punjab State Power Corporation Limited (PSPCL) under long-term power purchase agreement (PPA) contract of 30 years valid till 2039. Gross capacity utilisation factor (CUF) levels for the last 12 months ending with June 30, 2024, have been satisfactory ~89.23%. PBILDT margins reported by the company remains satisfactory and stood at 12.46% in FY24 compared to 12.25% in FY23. Further, in Q1FY25, the company reported revenue achievement of ₹144.00 crore with PBILDT margin of 13.52%.

Healthy order book position:
DDEL has healthy order book position as reflected from its unexecuted order book of ₹1076.84 crore as on September 01, 2024, compared to ₹456.24 crore as on September 01, 2023, noted in last rating providing revenue visibility over the medium term (The orders are generally executed over 9-12 months period). DDEL's unexecuted order book is 1.66x of the last year's TOI. The company's order book is concentrated with the top five orders comprising ~65.63% (PY: 43.22%) of the total order book, exposing its revenues and cash flows to risks of delays in execution of these orders.

Experienced promoters and long track record of operations
DDEL is promoted and managed by Krishan Lalit Bansal having technical qualification and vast experience of nearly three decades in similar business. The company has been running operations since 1988 and is one of the leading players in prefabrication piping industry in India, and over the years, has also built-up its presence in the export market.

Reputed client base despite exposed to concentration risk
DDEL mainly caters multinational original equipment manufacturers (OEMs) of power generation equipment, engineering, procurement and construction (EPC) contractors serving power, process and oil and gas industry. The company's clientele includes companies like General Electric (GE), Dangote, Nooter Eriksen, Toshiba, Doosan, L&T, Thermax among others which have been providing orders on repeated basis to the company. Top 10 customers in FY24 contributed close to 52% in the company's TOI of compared to 67.69% contribution in FY23, thus exposing the company to customer concentration risk and changes in procurement policy of these customers may adversely impact the company's operations . However, the company's long and established track with reputed customers mitigates this risk to an extent.

Key weaknesses

Exposure towards subsidiaries
DDEL has investments aggregating ₹68.38 crore as on March 31, 2024 (PY: ₹68.20 crore) in its subsidiary companies (MPPL, DFIPL and DEE Thailand). The company has also extended financial support to its subsidiaries in form of inter corporate loans which stood at ₹86.91 crore (PY: ₹84.72 crore) to service debt repayments and ramp-up of operational performance. Furthermore, bank facilities of subsidiaries are backed by corporate guarantee provided by DDEL to the extent of ₹60.29 crore (PY: ₹69.21 crore). Going forward, CARE Ratings expects group exposure to remain at similar level considering improvement in operational performance of subsidiaries. Going forward, higher-than-envisaged increase in financial support provided by DDEL towards subsidiaries shall remain crucial for the company's credit profile and shall remain a key monitorable.

Working capital intensive operations
The company's operations are working capital intensive with elongated inventory and collection period of 192 days in FY24 (PY:192 days) and 81 days (PY:95 days), respectively, the change is mainly considering increasing job work business in the company. The company procures ~60-70% of RM through import (under LC) from different countries with lead time of ~6 months and debtors collection period ~150-160 days as the company receives payment from customers per milestones achieved under contract. Average creditor's period stood ~100 days in FY24 (PY: 79 days).

Exposure to raw material price volatility risk
Major input material used by the company for fabrication is steel pipes, total cost of materials consumed constituted ~41.18% of TOI in FY24 (PY: 39%).
Prices of steel pipes are linked to demand supply scenario of market and the company generally enters fixed-price contracts with customers in piping segment and hence sharp variation in input costs may impact the company's margins as there is no pass through. However, the risk is partially mitigated as DDEL makes back-to-back arrangements with suppliers as soon as the order is secured. The company also has the strategy of partially hedging through natural hedge and remaining receivable through taking one year forward cover, trade payables are hedged by taking short term cover to safeguard against forex fluctuations as ~60-70% of its raw materials are procured from outside India. DDEL reported foreign exchange gain of ₹4.51 crore in FY24 (PY: ₹6.76 crore). Going forward, the company's ability to effectively manage RM prices volatility and foreign currency fluctuation risk shall remain imperative from credit perspective.

Liquidity: Adequate
Liquidity position is adequate marked with envisaged cash accruals of around ₹88.25 crore against standalone principal debt repayment of ₹26.51 crore in FY25 and consolidated repayment obligation of ₹42.12 crore. Further, the company has unutilised fund- based working capital limits providing buffer to meet fluctuations in working capital requirement going forward. Moreover, the company has IPO funds amounting ₹297.13 crore which has utilised majorly for working capital requirements and strengthen the company's capital structure by reducing reliance on borrowings. As on June 30, 2024, the company has unutilised IPO funds of ₹47.13 crore. With a gearing of 0.40x as on June 30, 2024, the company has sufficient gearing headroom, to raise additional debt for its capex requirements.

Detailed description of key rating drivers (MPPL):

Key strengths

Steady operational performance with improvement in profitability during FY24

Operational performance of the plant improved with gross CUF during FY24 at 90.54% (PY: 78.80%). TOI reported at ₹40.33 crore in FY24 improved from Rs.34.12 crores in FY23 reflecting growth of 18.20%. PBILDT margin improved to 20.53% in FY24, up from 15.44% in FY23. This improvement was largely driven by better CUF, decrease in raw material costs, coupled with better apportionment of fixed expenses.

During Q1FY25, gross CUF of the company stood at 89.23% and TOI reported at Rs.10.71 crore.

Satisfactory financial risk profile with comfortable debt coverage indicators

The company's inancial risk profile is satisfactory with comfortable overall gearing of 0.37 times as on March 31, 2024 (PY: 0.46 times). MPPL also has **support from parent entity** DDEL in form of 10% interest bearing unsecured loan of Rs. 1.90 crores in FY24 increased from Rs.0.71 crores in FY23, which is expected to be squared off during the year out of cash accruals generated as MPPL is self-sustainable and does not require further financial support from DDEL, however corporate guarantee shall be continued till the tenure of loan.

Interest coverage ratio stood comfortable at 9.19 times in FY24 moderated from 6.25 times in FY24 due to improvement in profitability during the year.

Long-term relationship with PSPCL through on going PPA from last two decades

MPPL entered a Power Purchase Agreement (PPA) with Punjab State Power Corporation Limited (PSPCL) for the period of 20 years valid till May 2025 and extendable by another 10 years at a tariff determined by Punjab State Electricity Regulatory Commission (PSERC). The company has already started the extension process, and envisaging to close this by December 2024.

The agreement is based on complete off-take of power thereby mitigating the power off-take risk. PPA signed with PSPCL has a fixed tariff of Rs 1.53 per unit and a variable tariff with a normative escalation factor of 5% per annum in-line with increase in raw material prices. Escalated tariff will be applicable during any financial year starting from April 01 and the rate would be uniform throughout the year. Current tariff rate is Rs. 7.88 per kwh for year FY24 and Rs. 7.57 per kwh for FY23. Going forward, extension of PPA for another 10 years at a remunerative tariff with PSPCL shall remain key monitorable.

Key weaknesses

Biomass availability and volatility in fuel cost:

Availability and pricing of biomass power is subject to significant supply and demand factors. On the supply side, availability of agro wastes 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 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 a number of alternative users. These include from households as domestic fuel, cattle feed, fodder and from brick kiln manufacturers. Increased use of biomass by various users resulted in biomass prices shooting up in most regions of the country, while tariffs in most states have not been adjusted adequately to reflect the increased cost of generation. Although the company has agreement with the local bodies but still the seasonality of the biofuel possess a threat of non-availability of the same and hence can pose interruption in the power generation affecting the revenue.

Exposure to counterparty credit risk related to PSPCL:

As per PPA agreement, PSPCL shall make full payment of monthly invoice within 60 days of receipt of the said invoice. In case, payments are delayed beyond 60 days, PSPCL would be liable to pay interest for late payment. Though the off-take arrangement is in place with PSPCL, a credit risk is involved related to the timely realizations. The credit risk emanates from the weak credit **profile** of PSPCL. However, MPPL has been receiving payments regularly from PSPCL with delays of 10 to 20 days

Working capital intensive operations:

MPPL's operations remained working capital intensive as the company procures raw material for entire year's usage leading to higher inventory days and further exposed to delays in realisation of invoices from PSPCL though average collection period stood at 77 days in FY24 slightly improved from 85 days in FY23. Average creditors' period stood at same level of 65 days in FY24, while the operating cycle stood at 151 days in FY24 slightly elongated from 146 days in FY23. Furthermore, average fund-based working capital utilisation for trailing 12 months ending with June 30, 2024, stood moderate at 84.34%.

Liquidity: Adequate

Liquidity is marked adequate by envisaged cash accruals of ~Rs.6.99 crores against repayment obligations of Rs.0.88 crores in FY25. With a gearing of 0.37 times as of March 31, 2024, MPPL has sufficient gearing headroom, to raise additional debt for future exigencies, if any. There is no buffer available in the limits as the fund based working capital limits remains fully utilised, however the bank facilities are backed by corporate guarantee of DDEL which providing comfort for the ratings.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Credit Enhanced Debt
Rating Outlook and Rating Watch
Thermal Power
Financial Ratios – Non financial Sector
Infrastructure Sector Ratings

Adequacy of credit enhancement structure: Adequate as term loan facility rated by CARE Ratings is backed by unconditional and irrevocable corporate guarantee of DDEL till the tenor of facility.

About the Credit Enhancement Provider (DDEL- Corporate Guarantor)

DDEL, incorporated in year 1988, is engaged in engineering and fabrication of pressure piping systems across diversified industries including power, oil and gas among others at its manufacturing facility at Palwal District, Haryana, with an installed capacity of 36,000 MT. The company also operates a biomass power plant of 8-MW capacity at Abohar, Punjab. DDEL also has wholly-owned subsidiaries, DEE Fabricom India Private Limited, engaged in heavy metal fabrication projects in areas like wind towers fabrication, and steel bridges, among others Malwa Power Private Limited engaged in operating a biomass power plant of 7.5-MW capacity at Muktsar district, Punjab and DEE Piping Systems (Thailand) Company Limited.

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Utilities	Power	Power	Power Generation

Incorporated in January 2002, MPPL is promoted by K. L. Bansal and operates a biomass-based power plant in Muktsar district, Punjab, with an installed capacity of 7.5 MW. The plant was commissioned in April 2005. The company sources biomass fuel directly from local farmers as well as open purchase centres. The company has a long-term PPA with Punjab State Power Corporation Limited (PSPCL) for a period of 20 years till 2024 extendable by another 10 years at a tariff determined by Punjab State Electricity Regulatory Commission (PSERC).

Brief Financials (₹ crore)-DDEL (Standalone)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25(UA)
Total operating income	509.46	648.97	144.00
PBILDT	62.42	80.88	20.14
PAT	18.59	19.82	0.43
Overall gearing (times)	0.68	0.93	0.40
Interest coverage (times)	2.18	2.01	2.08

A: Audited UA: Unaudited; Note: these are latest available financial results

Brief Financials (₹ crore)-MPPL (Standalone)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	34.12	40.33	10.71
PBILDT	5.27	8.28	Not Available
PAT	2.18	5.49	Not Available
Overall gearing (times)	0.46	0.37	Not Available
Interest coverage (times)	6.25	9.19	Not Available

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	7.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	June 2025	0.33	CARE A- (CE); Stable
Un Supported Rating-Un Supported Rating (Long Term)		-	-	-	0.00	CARE BBB

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	7.00	CARE BBB; Stable	-	1)CARE BBB; Stable (10-Oct-23)	1)CARE BBB+ (CE); Stable (30-Sep-22)	1)CARE BBB+ (CE); Stable (22-Sep-21)
2	Fund-based - LT-Term Loan	LT	0.33	CARE A- (CE); Stable	-	1)CARE BBB+ (CE); Stable (10-Oct-23)	1)CARE BBB+ (CE); Stable (30-Sep-22)	1)CARE BBB+ (CE); Stable (22-Sep-21)
3	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BBB	-	1)CARE BBB (10-Oct-23)	1)CARE BBB (30-Sep-22)	1)CARE BBB (22-Sep-21)

LT: Long term;

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I - Investment from surplus cash accruals from MPPL to DDEL is allowed	
B. Non-financial covenants	NA

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Un Supported Rating-Un Supported Rating (Long Term)	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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