Rays Power Infra Limited

October 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	159.72 (Enhanced from 100.00)	CARE A-; Positive	Reaffirmed; Outlook revised from Stable
Long-term / Short-term bank facilities	752.28 (Enhanced from 290.00)	CARE A-; Positive / CARE A2+	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	38.00 (Reduced from 40.00)	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Rays Power Infra Limited (RPIL) continue to derive strength from its experienced promoters, strong execution capabilities for solar power projects on engineering, procurement and construction (EPC) basis, and a healthy and geographically diversified orderbook from reputed clientele with low counterparty credit risk. Ratings also consider satisfactory capacity utilisation factor (CUF) of the company's solar power projects, and a low off-take and counterparty risk due to the presence of power purchase agreement (PPA) with the state DISCOMs, and favourable policy framework. Ratings take cognisance of sustained growth in RPIL's scale of operations, improvement in profitability, and augmentation of net worth base through private placement of fresh equity shares in FY24 (refers to April 01 to March 31) and H1FY25 resulting in a comfortable financial risk profile with adequate liquidity.

Ratings continue to be primarily constrained due to RPIL's presence in a fragmented and intensely competitive renewable power EPC segment, its profitability susceptible to key raw material price volatility and segmental concentration of its orderbook. Ratings are also constrained considering risk pertaining to variation in climatic conditions and technological risk associated with the performance of solar power plants under independent power producer (IPP) segment.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increasing scale of operations with profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 12% on a sustained basis.

Negative factors

- Declining total operating income (TOI) below ₹500 crore or PBILDT margin falling below 9% on a sustained basis.
- Deteriorating overall gearing beyond 1x on a sustained basis

Analytical approach: Consolidated.

CARE Ratings Limited (CARE Ratings) has considered consolidated financials of RPIL including all its subsidiaries as on March 31, 2024, owing to strong management, operational and financial linkages. Entities consolidated into RPIL are listed under Annexure-6

Outlook: Positive

'Positive' outlook reflects CARE Ratings' expectation of a continued growth in RPIL's scale of operations backed by steady execution of its orderbook and sustenance of its healthy profitability and debt coverage indicators. The outlook shall be revised to 'Stable' in case of company registering lower-than-envisaged TOI or profitability, or in case of material moderation in the capital structure.

Detailed description of key rating drivers:

Key strengths

Experienced promoters and established track record in development of solar power plants

RPIL is promoted by Ketan Mehta, who possesses over a decade of experience in the solar industry and heads the group's EPC business. He is ably supported by Pawan Sharma, co-promoter, and a team of experienced professionals, forming a strong second line of management for project execution. The in-house team has an expertise in transmission, power distribution, and rooftop segment (through execution of turnkey projects) and extends support services such as consulting, engineering, contracting and

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

commissioning for solar power projects. The group has a track record of implementing solar power projects across India (in over 11 states), and overseas geographies such as Vietnam and Bangladesh.
The group has commissioned over1 GW of solar power projects, undertakes operations & maintenance (O&M) for over 530 MW of grid connected and rooftop photovoltaic power projects.

Substantial growth in scale of operations and improvement in profitability
On a consolidated basis, RPIL's TOI, reported a five-year compounded annual growth rate (CAGR) of ~39% and a y-o-y growth of 35% to ₹1050 crore (PY: ₹780.79 crore) in FY24. The group generated revenue from three segments, 70% from EPC for solar power projects, 28% O&M of solar power plants and sale of electric vehicle & components, and balance by sale of solar power, IPP business (PY: 87%, 11% and 3% respectively).
Growth in scale of operations in FY24 was primarily considering an increase in the EPC business vertical with scaling up of execution pace of orders on hand and increase in sale of electric vehicle segment (contribution to revenue ₹219 crore in FY24 against ₹42.5 crore in FY23).
The company's PBILDT margin improved by 169 bps to 11.51% in FY24 (PY: 9.82%) considering increase in execution of high value margin contracts and increase in revenue contribution from the sale of high margin electric vehicles & components. Consequently, profit after taxes (PAT) margin and gross cash accruals (GCA) also improved to 8.61% (PY:4.26%) and ₹103 crore (PY: ₹50.37 crore) in FY24 (the margin and GCA in FY23 is excluding the extraordinary income of ₹95.36 crore from disinvestment).
CARE Ratings expects the revenue from EPC segment to grow by ~10-15% in the medium term considering healthy orderbook and increased focus of the management on EPC segment, aided by emphasis on the renewable power segment by the Government.
Per provisional financials for H1FY25 (refers to April 01 to September 26), on a standalone basis, RPIL reported TOI of ₹275.00 crore (PY: ₹133.59 crore).

Healthy and geographically diversified orderbook
As on August 31, 2024, RPIL had an order book of ₹2,767 crore to be executed in the next 2-3 years, translating into orderbook to TOI of 2.63x, indicating healthy revenue visibility in the medium term. Moreover, RPIL's order book is geographically diversified across India, Vietnam and Bangladesh.
RPIL's order book is majorly from government entities including state government undertakings and other reputed private players (national and international), which translates into a low counterparty credit risk. Execution of projects on hand (especially projects outside India) within envisaged cost and timeframe shall continue to remain crucial from credit perspective.

Comfortable leverage and debt coverage indicators
Despite significant increase in TOI and high working capital intensity, RPIL's financial risk profile remained comfortable marked by overall gearing of 0.65x (PY:0.51x) as on March 31, 2024.
Debt coverage indicators continue to remain healthy marked by PBILDT interest coverage and total debt to PBILDT of 6.71x (PY: 3.79x) and 1.87x (PY:1.31x) respectively in FY24.
Going forward, major debt funded capex in the related business ecosystem resulting in material deterioration in the company's financial risk profile shall remain a key rating monitorable. The management is mulling setting up of a solar cell and module manufacturing facility in the near-to-medium term, though its modus operandi has not been finalised yet.

Private placement of shares
RPIL is expected to come up with an initial public offering (IPO) and till August 2024, the group has completed the private placement of 47.12 lakh equity shares and has raised fresh equity of ₹195.00 crore. The company has utilised proceeds to the tune of ₹115 crore towards working capital requirement of the business and the balance ₹80 crore lies unutilised as on date.
CARE Ratings expects RPIL's financial risk profile to improve considering the proposed IPO. IPO proceeds are to be utilised for working capital requirements, increase in asset base and for general corporate purpose.

Satisfactory operational performance of IPP assets with long-term revenue visibility
As on March 31, 2024, the group has operational IPP assets (ground-mounted and rooftop) of 12.25 MW, which reported an average CUF of 16%. The group has executed long-term PPAs with the state DISCOMS for supply of power from these projects for 20-25 years, at an average rate of ₹7.68/ unit.

RPIL is adding an additional IPP capacity of four MW with a total cost of ₹17.00 crore, which will be funded by the term loan of ₹16.00 crore and balance by internal accruals. The financial closure for it is yet to be achieved. The company has obtained all requisites approval and clearances and it is expected to be operational from Q4FY25.

Considering the operational track record of power generation and timely receipt of payment for over five years and established infrastructure for power evacuation, CARE Ratings expects IPP assets to be self-sustainable in nature with annual power sale income of ~₹14-15 crore and a healthy PBILDT margin of over 80%.

Key weaknesses

Segmental concentration of order book and susceptibility to volatile input prices

RPIL undertakes EPC contracts for construction of solar power projects across geographies. With a high concentration of order book towards these projects, the company remains vulnerable to risks associated with their commissioning within predefined timelines and cost parameters. CARE Ratings also notes that challenges in increasing polysilicon prices and availability of solar modules may impact the group's TOI and the profitability of the group. While the risk of increase in solar modules prices in the current orderbook is partly mitigated due to price escalation clause (in orders where the scope of work includes supply of solar panels), the group's ability to demonstrate strong project execution capabilities despite disruptions remains crucial from the credit perspective. CARE Ratings also makes a note sharp fluctuations in metal prices, challenges in land acquisition and receipt of prerequisite clearances, profitability of solar EPC players such as RPIL may remain vulnerable.

Presence in a fragmented and competitive industry with low bargaining power

RPIL is a mid-sized player operating in an intensely competitive and fragmented solar industry. Its competitors include IPPs and EPC arms of several solar panel manufactures, who comparatively hold a better bargaining power. It also faces competition from several smaller players, who provide O&M services for solar power projects.

Risk pertaining to terms and continuity of PPA agreement and power generation susceptible to climatic conditions and technological risks

The PPA executed by the group does not have a lock-in period and it can be terminated by either party by giving a six months' notice. Consequently, the group is exposed to the risk arising from discontinuation of PPA by counterparties in the long term. Achievement of desired CUF going forward would be subject to climatic conditions, extent of degradation of modules and performance of thin film photovoltaic (PV) solar cells, which have a relatively short performance track record in Indian conditions.

Liquidity: Adequate

RIPL's liquidity remains adequate, characterised by a healthy cushion in company's GCA against its debt repayment obligations, healthy collection efficiency against monthly billings, sufficient headroom in working capital limits, a satisfactory operating cycle, and a free cash and bank balance of ₹66.10 crore as on March 31, 2024. RPIL has also availed enhancement in its fund-based and non fund-based limits periodically (₹179.75 crore since the last review), which has aided its liquidity in light of growing scale of operations.

Despite faster rotation of funds under solar EPC project with an adequate collection efficiency, the working capital requirement continues to remain high as inherent in the construction industry, reflected by gross current asset days of 187 days in FY24 (PY: 165 days). With increase in scale of operations and a high working capital intensity, collection days of RPIL increased to 81 days (PY: 65 days), resulting in a negative cash flow from operations in FY24 and an elongation of operating cycle to 57 days in FY24 (PY: 31 days).

Average month-end utilisation of fund-based and non fund-based limits remained moderate at 56% for six-months ended August 31, 2024. The company has started utilising Trade Receivable Discounting System (TreDS) limits from FY24 for payments to its small and medium enterprise (SME) vendors, including sub-contractors, due to interest rate benefit. The outstanding of TreDS was ₹98.55 crore as on March 31, 2024.

RPIL's liquidity is expected to remain adequate in the near-to-medium term considering strong operating performance and envisaged enhancement in its working capital limits to fund its future growth. CARE Ratings expects a further increase in working capital intensity of its operations considering increasing focus on the EPC business. Consequently, execution of projects within specified timelines and realisation of debtors remains crucial for working capital management.

Assumptions/Covenants: Not applicable

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

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector

Construction
Infrastructure Sector Ratings
Short Term Instruments
Consolidation
Solar Power Projects
Manufacturing

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil construction

RPIL is part of the Rays group, which has an established track record of over a decade in the renewable power segment. The Rays group is engaged in EPC businesses of solar power projects, generation of solar power as an IPP and O&M contractor for solar power plants. The group also has expertise in the transmission, power distribution, and rooftop segment as well (by the execution of turnkey projects) and extends support services such as consulting, engineering, contracting and commissioning services for solar power projects. The group has commissioned 1 GW of solar power projects in the last 10 years and, at present, it is providing O&M service for over 530 MW of solar power capacity.

Consolidated

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Prov)
Total operating income	780.79	1050.54
PBILDT	76.69	120.90
PAT	128.63	90.45
Overall gearing (times)	0.51	0.65
Interest coverage (times)	3.79	6.71

A: Audited, Prov: Provisional, Note: these are latest available financial results.
Note: per the provisional financials for H1FY25 (refers to April 01 to September 26), RPIL, on a standalone basis, reported TOI of ₹275.00 crore (PY: ₹133.59 crore).

Status of non-cooperation with previous CRA: Nil

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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	122.50	CARE A-; Positive
Fund-based - LT-Term Loan		-	-	April 2036	37.22	CARE A-; Positive
Non-fund-based - LT/ ST-BG/LC		-	-	-	752.28	CARE A-; Positive / CARE A2+
Non-fund-based - ST-Bank Guarantee		-	-	-	38.00	CARE A2+

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	122.50	CARE A-; Positive	-	1)CARE A-; Stable (19-Dec-23)	1)CARE A-; Stable (21-Sep-22)	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	752.28	CARE A-; Positive / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (19-Dec-23)	1)CARE A-; Stable / CARE A2+ (21-Sep-22)	-
3	Fund-based - LT-Term Loan	LT	37.22	CARE A-; Positive	-	1)CARE A-; Stable (19-Dec-23)	1)CARE A-; Stable (21-Sep-22)	-
4	Non-fund-based - ST-Bank Guarantee	ST	38.00	CARE A2+	-	1)CARE A2+ (19-Dec-23)	1)CARE A2+ (21-Sep-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

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	Non-fund-based - LT/ ST-BG/LC	Simple
4	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Edirays Infrastructure Private Limited	Proportionate	Operational and managerial linkages with subsidiaries been in solar infrastructure business
2	Honavar Solar Power Private Limited	Full	
3	Mandawa Solar Power Private Limited		
4	Rays Future Energy India Private Limited		
5	Rays Power Innovation And Development Ventures Private Limited		
6	Raysalfa Power Private Limited		
7	Savanur Solar Power Private Limited		
8	Sayala Solar Power Private Limited		
9	Shiniing Sun Power Private Limited		
10	Shining Sun Power Jaipur Private Limited		
11	Tuticorin Solar Projects Private Limited		

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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