Star Wire (india) Vidyut Private Limited

February 23, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	39.68 (Enhanced from 35.68)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Total Bank Facilities	**39.68 (Rs. Thirty-Nine Crore and Sixty-Eight Lakhs Only)**		

Details of facilities in Annexure-1.

Detailed Rationale and key rating drivers

The revision in the long-term ratings of Star Wire (India) Vidyut Private Limited (SWIVPL) factors improvement in the capital structure, profitability margins and debt protection metrics. The improvement also takes into consideration consistent performance as reflected from stable operational performance, cash profits and liquidity position. Further, the rating continues to draw comfort from experienced management, long term power purchase agreement with Haryana Power Purchase Center, high entry barriers and favourable policy framework.

However, the rating continues to remain constrained on account of elongated operating cycle, dependence on fuel availability, project execution and stabilization risk, client concentration risk as Haryana power purchase center (HPPC) is the sole off taker and biomass availability and volatility in fuel cost.

Key Rating Sensitivity

Positive Factors

- Improvement in scale of operations to around Rs. 70 crore over the medium term on sustained basis.
- Improvement in the elongation of the operating cycle below 90 days on sustained basis.

Negative Factors

- Decline in the profitability margins as marked by PBILDT and PAT margins below 12.50% and 8.50% respectively on sustained basis.
- Deterioration in the capital structure as marked by overall gearing ratio above 1.50 times on sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management

The company was incorporated in 1991 and taken over by Todi Group in 2009. Mr. Varun Todi is a management graduate and has more than a decade of experience in the power generation industry through the company. He has been associated with the company since 2009. Ms. Archana, Mr. Rishi Todi and Mr. Birbal Yadav are graduate by qualification and have an accumulated experience of around a decade. All directors collectively look after the overall management of the company.

Growth in total operating income and cash profits

The scale of operations of the company as marked by total operating income increased in FY20 (Audited results: refer to the period from April 01 to March 31) to Rs 60 crore as against Rs. 54.20 crore in FY19 reflecting a growth of approx. 11% over the previous year. The improvement was on account of higher units generated and higher tariff rate charged by the company. Further, the company has achieved total operating income of Rs. 48.53 crore during 9MFY21 (refers to the period April 01 to December 31, based on provisional results).

The gross cash accruals of the company have also improved to Rs. 15.34 crore during FY20 as against Rs. 14.51 crore during FY19 owing to better profitability, thereby lending liquidity support to the company.

Improvement in financial risk profile

The company's financial risk profile improved as evident from better profitability, improvement in capital structure and debt coverage indicators.

The profitability margins of the company improved as marked by PBILDT margin of 39.25% in FY20 (Audited: refers to the period from April 01 to March 31) as against 36.90% in FY19. The improvement in operating margins was on account of lower expenses incurred particularly decline in consumption expenses. However, the PAT margin slightly dipped by 13bps from 17.59% in FY19 to 17.46% in FY20.

The capital structure of the company improved as marked by overall gearing ratio of 1.44x as on March 31, 2020 as against 2.72x as on March 31, 2019. The improvement in the capital structure is on account of repayment of rupee term loan, vehicle loans and unsecured loans to related parties coupled with higher networth base owing to accretion of profits to reserves.

Owing to better profitability and lower debt levels, the debt protection metrics of the company improved as marked by interest coverage and total debt to GCA of 3.67x and 2.81x respectively for FY20 as against 3.31x and 3.64x respectively for FY19.

Long-term Power Purchase Agreement (PPA) with Haryana Power Purchase Center

The company has entered into a Power Purchase Agreement (PPA) with HPCC in June, 2012 on behalf of Uttar Haryana BIjli Vitran Nigam (UHBVNL) and Dakshin Haryana Bijli Vitran Nigam (DHBVNL) for tenure of 20 years which is extendable to 10 more years on mutual consent of both the parties. As per term of PPA, HPPC will purchase and accept entire energy generated by the company facility up to the contracted capacity of 9.9 MW as on March 31, 2020***.***

As per the PPA, HPPC shall make full payments of monthly invoice within 60 days of receipt of the monthly invoice. SWIVPL has been receiving payments from HPPC against invoices raised within the stipulated time. In the event that the payments are delayed beyond the due date, HPPC would be liable to pay late payment surcharge for the delayed amount at 1.25 % per month for the actual period of delay. There have been no instances of significant delay in payment by HPPC.

High Entry Barriers and Favourable policy framework

The capital-intensive nature of the power generation industry coupled with the long gestation period (3 -4 years) acts as an entry barrier to small entrants. Additionally, the fuel for energy generation i.e. the agricultural waste is limited as it's linked to the crop season. With all the above-mentioned factors, it is very difficult for new entrants to get licenses thus providing a competitive advantage to existing players.

The central government is providing various incentives to encourage investment in the field of biomass power projects. Some of the incentives are accelerated depreciation, custom duty concessions for machinery and components for initial setting up of projects, sales tax exemption in certain states, income tax exemption on profits for 10 years, etc. Moreover, Harayana Electricity Regulatory Commissions (HERCs) are announcing preferential tariffs and directing State distribution utilities to compulsorily source a certain fixed percentage of power from renewable sources under Renewable Purchase Obligations (RPO).

Key Rating Weaknesses

Elongated operating cycle

SWIVPL majorly procures the agricultural and field waste i.e. cotton sticks, mustard husk, paddy waste and trashed can etc. as the raw material from the nearby farmers to produce electricity. SWIVPL stores the fuel in March –June and in October. The company has adequate raw material available for the un-interpreted production process. Further, the company uses fuel like petroleum to run machinery however, the company ensures minimal use of fossil fuels as mandated in the agreement. The average inventory stood at 17 days for FY20. The process of electricity generation is a continuous process as it has to be supplied to HPPC on a regular basis. SWIVPL sells the generated electricity to HPPC. SWIVPL issue invoices on monthly basis that is the last working day of the month and normally receives payment within 60 days from clearance of invoice by Haryana Power Purchase Centre (HPPC). The collection period stood at 93 days in FY20 as against 101 days in FY19. On the contrary, lower period is received by SWIVPL from the suppliers, which upsurges SWIVPL reliance on external borrowings to meet working capital requirements. Entailing all, the operating cycle of the company continues to be elongated at 100 days in FY20 as against 111 days in FY19. The average utilization of the working capital limits remained utilized around 54% for the past 12-month period ending December 31, 2020.

Dependence of Fuel availability

The major fuel requirement of the company is agro waste and it majorly includes mustard, rice, paddy waste and other miscellaneous waste. The company meets its fuel requirement either from open market, by contacting the farmers (through company employees) and buying from them (farmer dump the waste at company premises). They also purchase from other vendors who act as aggregators from small farmers. Thirdly, purchasing directly from the farmer fields using its own transportation. The company is operating this plant since May 2013 and have never faced any shortage of fuel supply, as there are multiple sources of fuel aggregation in the nearby areas. However going forward the timely availability of fuel at the competitive prices, would be imperative for the company and its ability to generate sufficient accruals to meet its obligations.

Project execution and stabilization risk

SWIVPL is implementing to set up 8MW biomass-based power plant at village Chandli of Tehsil Devli, Tonk district of Rajasthan with estimated total cost of Rs. 70 crore funded through debt of Rs. 42.38 crore (financial closure achieved) and remaining through equity contribution (Rs. 20 crore already incurred till January 31, 2021). IBPL has already entered PPA with Jaipur Vidyut Vitran Nigam limited for sale of electricity generated from the project. The PPA is for 20 years from the date of commissioning the project. The project implementation is in initial stages. The company expects to commence commercial operations from September, 2021. Therefore, considering the initial stages of operations, the project carries execution and stabilization risk. Going forward, the ability of the company to complete the project on time and within the cost estimates would be key rating sensitivity.

Client concentration risk as HPPC is the sole off taker

The company is exposed to counter- party credit risk as HPPC is the sole buyer of power. However, as per the PPA in case of any delay by the off-taker in making payments beyond 60 days from the due date, the company is entitled to late payment surcharge at the rate 1.25% per month for actual period of delay.

Biomass availability and volatility in fuel cost

The 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 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 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 has 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 bio fuel possess a threat of non-availability of the same and hence can pose interruption in the power generation affecting the revenue.

Liquidity analysis: Adequate

The company has adequate liquidity as characterized by gross cash accruals of around Rs 15.35 crore for FY21 against repayment obligations of Rs. 8.28 crore (includes unsecured loan repayment of Rs. 4.40 crore). The company has cash and cash equivalents of 1.98 crore as on March 31, 2020. The average utilization of working capital limits for the company stood around 53.67% for the past 12 months' period ending December 31, 2020. Further to manage the liquidity due to delay in payment by HPCC, the company has increased its working capital limits to Rs.20cr and has also availed Rs.4cr of covid loan. The company was given moratorium by SBI in interest servicing of the working capital limit for the month of April and May as provided by banks in line with the RBI guidelines in wake of Covid-19 pandemic. The company had paid the interest for the same in the month of September. However, the company did not avail the moratorium period in term loan given by REC.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology-Power Generation Projects
Financial ratios – Non-Financial Sector

About the Company

Delhi based Starwire (India) Vidyut Pvt Ltd (SWIVPL) was incorporated in 1991 and commenced operations in May 02, 2013. SIVL has a 9.90 Megawatt (MW) biomass based power plant located in village Khurawata of Mahendargarh District in Haryana.

(Rs. In crore)

Brief Financials (Rs. crore)	**FY18**	**FY19**	**FY20**
	A	**A**	**A**
Total operating income	54.65	54.20	60.00
PBILDT	22.56	20.00	23.55
PAT	2.97	9.53	10.47
Overall gearing (times)	5.83	2.72	1.44
Interest coverage (times)	3.20	3.31	3.67

A-Audited

Status of non-cooperation with previous CRA: ACUITE has conducted the review and has classified Star Wire (india) Vidyut Private Limited as "Not Cooperating" on the basis of best available information vide its press release dated January 08, 2020.

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	20.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	Dec, 2028	19.68	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB-; Stable	-	1)CARE BB+; Stable (27-Feb-20)	1)CARE BB-; Stable (26-Feb-19) 2)CARE BB-; Stable (20-Nov-18) 3)CARE B; Stable (27-Apr-18)	-
2.	Fund-based - LT-Term Loan	LT	19.68	CARE BBB-; Stable	-	1)CARE BB+; Stable (27-Feb-20)	1)CARE BB-; Stable (26-Feb-19) 2)CARE BB-; Stable (20-Nov-18) 3)CARE B; Stable (27-Apr-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

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

Note on complexity levels of the rated instrument*: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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