Matrix Green Energy Private Limited

December 23, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	41.64 (Reduced from 45.97)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Total Facilities	41.64 (Rs. Forty-One Crore and Sixty-Four Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating(s) assigned to the bank facilities of Matrix Green Energy Private Limited (MGEPL) derives strength from consistent financial performance with track record of power generation over the past three years in line with the assessed PLF level, timely receipt of payments from the off takers on a regular basis, comfortable debt coverage metrics and an adequate liquidity profile with maintenance of Debt Service Reserve Account (DSRA) for one quarter of debt servicing obligations. The rating continues to derive strength from experienced promoters in the renewable energy segment with successful track record of completion and operation of various renewable power projects, long term revenue visibility with firm arrangement through Power Purchase Agreement (PPA) covering entire debt tenure, stable industry outlook for renewable power.

The rating is, however, constrained by exposure to risks associated with volatility in tariff, regulatory risk associated with any changes in Karnataka State Solar open access policy and inherent business risk associated with dependence on climatic conditions & technological risk.

Rating Sensitivities

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

- Improvement in financial risk profile of off-takers.
- Improvement in financial risk profile (overall gearing < 1x and Total debt/Gross cash accrual (TD/GCA) <2x) on sustained basis.

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

- Reduction in generation of power below current CUF level (apart from normal degradation of 0.5% p.a.) on sustained basis.
- Any renegotiation in the existing PPA leading to significant reduction in tariffs and or any adverse change in State regulatory policy impacting the cashflows.
- Delays in collection of sale proceeds or deterioration in financial risk profile (overall gearing >2x or TD/GCA >5x) on sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter with established track record: The promoters of MGEPL have been involved in the renewable energy industry for more than 15 years and have successfully executed projects in the renewable energy segment. The company is headed by Mr. Kasu Abhiram Reddy, Managing Director, and the business operations of MGEPL have benefited from his long-established track record in in developing independent power projects and the vast industry network developed over the years.

Firm off-take arrangement and moderate counter party credit risk with timely receipt of payments: MGEPL has tied up long term power off-take through PPA with established commercial real estate developers who are into developing office space in Bangalore for a period of 20 years. MGEPL sells the entire generated power to the developers, who in turn are supplying power to companies like Accenture Plc., International Business Machines (IBM), Hewlett Packard (HP) and Tata Motors. Having reputed end users results with relatively low counterparty credit risk which is supported by timely receipt of bills for both the plants. For the Raichur plant the company was receiving bills within 26 days in FY21 whereas for the Yadgir plant the company was receiving bills within 10 days during FY21.

Consistent operational performance since inception: During FY21, the company generated 28.26 MUs of power with Valkamdinni plant (6.5MW) generating 12.06 MUs (PY: 12.25MUs) and Tumkur plant (8.5MW) generating 15.95 MUs (PY: 15.98 MUs). The PLF of Raichur plant is in line with the P-90 levels and recorded PLF of 21.18% (PY: 21.46%), PLF of Yadgir power plant stood at 21.41% (PY: 21.40%). The marginal decline in PLF for Yadgir is mainly the account of lower generation during September, October and November during FY21.

No Project execution risk: MGEPL was planning for construction of third solar power plant with a capacity of 8.5 MW (AC)/ 10.5 MW (DC) at Konkal Village, Yadgir District in Karnataka, which would have operated under similar structure of both initial projects with an estimated project cost of Rs.39.30 crore. Due to ongoing covid-19 pandemic, the company decided to abstain from the project implementation and same leads to relinquishing of project execution risk.

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

Satisfactory financial performance during FY21 and comfortable debt coverage: The total income from operations during FY21 dipped by 4.9% from Rs.23.88 crore in FY20 to Rs.22.71 crore in FY21 mainly due lower energy generation during September 2020 to November 2020. The PBIDLT margin improved to 88.90% in FY21 from 85.80% in FY20 due to low O&M expenses. Also, PAT improved from Rs.4.24 crore in FY20 to Rs.5.62 crore in FY21 due to reducing interest cost with gradual repayment of debt.
The debt coverage metrics are comfortable backed by satisfactory PLF and lucrative tariffs which has witnessed continuous increase on a y-o-y basis.

Long debt repayment tenure with presence of escrow mechanism and creation of DSRA: The debt funding is supported by favorable long repayment tenure of 10 years. Further, the debt availed for the projects entails maintenance of Debt Service Reserve Account (DSRA) equivalent to one quarter of principal and interest repayment within 12 months of COD. The same is being maintained by the company in the form of fixed deposits with Union Bank of India.

Stable Industry Outlook: There is great thrust from Government for improving the share of renewable power in India's overall power mix which is reflected from various policy initiatives. Solar projects have relatively lower execution risks, stable long term revenue visibility with long term off take arrangements at a fixed tariff, minimal O&M requirements, tariffs comparable to conventional power generation, must run status of solar power projects and upward revision in solar RPO achievement targets. However, there are concerns like increased difficulties in land acquisition, inadequate grid connectivity on account of poor evacuation infrastructure, relatively lesser track record of technology in Indian conditions, lack of stricter RPO enforcement by the state regulators, very high dependence on imported solar cells and modules, regulatory haze in terms of renegotiation of tariff in concluded PPAs and cancellation of concluded auctions, weak financial risk profile of Discoms with significant delays in payment by few state Discoms, increased difficulties in debt tie-up. Overall, positive, and negative developments in the sector counterbalance each other, thereby resulting in a stable outlook. Going forward key monitorable would be prices of solar modules, performance of the modules in Indian conditions, developments in claim of off-takers for renegotiation of PPAs, modalities to compensate under change in law for safeguard duty, payment pattern of off-takers, imposition of any anti-dumping duty by India to safeguard domestic solar module manufacturers, capacity additions of rooftop solar and regulatory stance.

Key Rating Weaknesses

Risks associated with volatility in tariff: As per the terms of PPA between MGEPL and the off takers, the chargeable tariff are benchmarked to applicable rates charged by BESCOM at that time, which exposes the company to volatility in tariff that may lead to revenue loss if there is any reduction in tariff in the future. Further, with intensifying competition in the industry and competitive rates offered by various entities, the risk associated with any renegotiation/early termination prevails. However, over last five years, the tariffs have seen an increasing trend which reduces the risk of volatility in the near future.

Climactic, technological, and regulatory risks: The power generation level of a solar power plant primarily depends upon factors like solar radiation levels, temperature, and climatic conditions, installed inverters, losses in PV systems, module aging and degradation etc. With several variables associated and governed by factors outside company's control, the same has the potential to adversely affect the operational efficiency of solar power plant. Further, the company is exposed to changes in Regulatory policy by Karnataka Government w.r.t solar open access.

Liquidity: Adequate

The debt funding of projects is supported by favorable long repayment tenure of 10 years that get completed in FY28/FY29 respectively for Raichur/Yadgir. The company generated a healthy cash accrual of Rs.13.84 crore in FY21 as against debt repayment of Rs.6.69 crore. The company has been maintaining DSRA (Rs.3.41 crore) equivalent to requirement of 1 quarter principal and interest obligation in the form of FD with the lender. Further, the receipt of payments from off-takers is also satisfactory with bills received within the month of raising bills.

Analytical approach: Standalone

CARE Ratings in its assessment has considered the standalone financials of the company.

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

Matrix Green Energy Private Limited (MGEPL), incorporated in October 2014 and based in Hyderabad, Telangana, is promoted by Mr. Kasu Abhiram Reddy (Managing Director). MGEPL was incorporated to develop and operate solar power capacity aggregating 15 MW at two different sites viz. Raichur and Yadgir located at Karnataka: with capacity of 6.5 MW and 8.5 MW respectively. MGEPL had commenced power generation for Raichur and Yadgir sites during February 2018 and March 2018, respectively.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	23.88	22.71	12.18
PBILDT	20.49	20.19	NA
PAT	4.24	5.62	NA
Overall gearing (times)	1.76	1.27	NA
Interest coverage (times)	3.33	3.96	NA

A: Audited; UA: Unaudited; NA: Not Available

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

Any other information: Not applicable.

Rating History for last three years: Please refer Annexure-2.

Covenants of rated instrument / facility: 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2028	16.67	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	March 2029	24.97	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	16.67	CARE BBB+; Stable	-	1)CARE BBB+; Stable (26-Feb-21)	1)CARE BBB; Stable (02-Mar-20)	1)CARE BBB; Stable (25-Mar-19)
2	Fund-based - LT-Term Loan	LT	24.97	CARE BBB+; Stable	-	1)CARE BBB+; Stable (26-Feb-21)	1)CARE BBB; Stable (02-Mar-20)	1)CARE BBB; Stable (25-Mar-19)

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 instrument	Complexity level
1	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 instrument: CARE Ratings Ltd. 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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