Godawari Green Energy Limited

August 25, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities – Term Loan	387.67 (reduced from Rs. 425.79 Crore)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long term Bank Facilities – Fund Based	7.00 (reduced from Rs. 13.00 crore)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Total Facilities	**394.67** (Rs. Three Hundred Ninety-Four Crore and Sixty-Seven Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Godawari Green Energy Limited (GGEL) continue to derive strength from the operational and managerial support from the Hira group, assured revenue due to the presence of Power Purchase Agreement (PPA) with NTPC Vidyut Vyapar Nigam Limited (NVVN) as well as Government-led reforms and incentives provided to encourage investment in renewable energy sources resulting in favourable outlook towards green energy assets. The rating is, however, constrained by GGEL's leveraged capital structure, moderate operational performance as well as debt coverage indicators, presence of technological risk due to the absence of adequate performance record and dependence on uncertain climatic conditions for power generation. Further, imposition of penalty by NVVN on account of lower than contracted energy supply as per PPA in the future will be a key monitorable.

Rating Sensitivities

Positive Factors

- Power generation at capacity utilization factor (CUF) of over 22.5% over a sustained period.
- Resolution of dispute with NVVN

Negative Factors

- Increase in receivable days beyond 30 days on a sustained period
- Any adverse outcome in the on-going litigation with NVVN

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management GGEL is a wholly-owned subsidiary of GPIL – the flagship company of the Hira Group.

The Raipur (Chhattisgarh) based Hira group has more than two decades of experience in the steel, ferro alloys and power industries. The group has reasonable experience in implementing large capex projects (though this is the first solar power project of the group). By virtue of being a part of the Hira group, GGEL draws strength from the promoter's experience and management quality in carrying out its business.

PPA with NVVN for entire capacity

The company has signed a PPA with NTPC Vidyut Vyapar Nigam Limited (NVVN) for sale of power from the 50MW Power Plant under JNNSM of GoI. The tariff is fixed at Rs.12.20 per unit for a period of 25 years. Due to this long term agreement, GGEL's off-take risk is mitigated to a large extent and the tariff charges are expected to provide stable revenue and cashflows for servicing the debt obligations in an adequate manner.

Reduction in auxiliary consumption owing to installation of VFDs/increase in net CUF; however declined in FY19 and FY20

The company has completed a capex of installation of VFDs (Variable Frequency Drive) in February 2015 resulting in the reduction of axillary consumption. The average auxiliary consumption for FY14 was 15.07% which reduced to 11.03% till FY18, however during FY19, increased marginally but remained at levels of 11.57% and decreased to the levels of 10.48% in FY20. The average net CUF (net of auxiliary consumption) achieved in FY20 was 18.54% whereas in FY19 was 17.14% [highest CUF was generated in May 2020 (27.0.9%)] as compared to 23.82% in FY19, 19.60% in FY18 and 20.81% in FY17. Further, for Q1FY21, auxiliary consumption reduced to 10.37% and net generation improved to 27.52% respectively.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Favourable outlook towards green (renewable) energy assets

India's installed renewable power generation capacity has increased steadily over the years, posting a CAGR of 17.28 per cent over FY14–19. India's installed renewable power generation capacity (excluding large hydro) in the country stood at 79.03 GW as on March 31, 2019. Power generation from renewable energy sources in India reached 126.76 billion units in FY19. Overall, India added 8.62 GW of grid interactive renewable energy capacity in FY19 along with witnessing highest ever solar power capacity addition in 2018-19. The major drivers for the growth in solar capacity addition have been various government initiatives and policies (both Central and respective States) including feed-in-tariffs and renewable purchase obligations (RPO), decline in equipment cost over the years, technological advancement, shorter implementation schedules and lower fuel availability risks as compared to conventional sources of energy. While weak financial health of discoms, stricter RPO enforcement by the state regulators and level of degradation of the modules given relatively lesser track record of technology in Indian conditions remain crucial; given the thrust by the government for RE capacity addition, rising cost of conventional energy assets vis-à-vis declining cost of solar assets, relatively faster execution cycle and distributed nature of solar energy, prospects of the industry remain favourable.

Key Rating Weaknesses

Moderation in operational and financial performance

The total operating income of the company improved by 8.02% from Rs. 93.58 crore in FY19 to Rs. 101.09 crore in FY20 on account of higher power generation (90.97 units in FY20 as compared to 84.91 units in FY19 and 96.54 units in FY18). Also, GGEL has reported improvement in Y-o-Y revenue of Rs. 36.84 crores (Q1FY20: Rs.34.20 crore) and PBILDT of Rs. 31.63 crore (Q1FY20: Rs.30.31 crore) due to higher generation levels during the period. Even though the financial performance is better, the sustainability of the same needs to be seen.

Leveraged capital structure with moderate debt coverage indicators

Although improved, the overall gearing of the company remains moderately high at 1.89x as at March 31, 2020 as against 2.04x as at March 31, 2019. Despite the refinancing of loans under 5/25, debt coverage indicators are moderate. Any variation in the cash flows owing to lower generation/higher auxiliary consumption resulting in increase in quantum of penalties from NVVN will remain the key rating sensitivity.

Penalty imposed by NVVN due to lower generation

During FY17, NVVN had imposed penalty by holding back receivables of Rs. 17.84 crore for the lower energy supplied during FY14, FY15 and FY16 based on Net generation. GGEL had filed the petition with Central Electricity Regulatory Commission (CERC) with regards to the penalty imposed by NVVN based on the fact that generation was lower due to lower DNI. As per order dated October 11, 2017 passed by CERC, that because of lack of proper due diligence, the developer (i.e. GGEL) had failed to project correct DNI which is assumed to be responsibility of developer. The PPA and amended PPA are silent about the lower DNI to be part of force majeure. Further, as per order passed in FY19, CERC directed NVVN to calculate penalty after taking into account grid failure and no relief on account of lower DNI was allowed. GGEL has appealed before appellate authority to consider lower DNI as force majeure and allow proportionate relief towards higher tariff on sale of power under PPA and calculation of minimum guaranteed power for levying penalty.

Technology risk

Global concentrated solar power (CSP) installations have witnessed a CAGR growth of 24.43% from 765MW in 2009 to 6.2GW as on end of 2018. 710 MW of CSP were added in 2018, representing its largest year since 2014. Parabolic trough plants represented around 70% of new capacity additions in 2018, with the balance made up by tower plants. The majority of CSP is still located in USA and Spain but other countries global market share has grown from 1% in 2009 to 31% in 2018. Although solar power generation through Photo Voltaic cells (PV – thin film and crystalline) is put to use in India, solar thermal project technology is relatively new to India. Solar Thermal technology offers higher project capacities, higher generation (or CUFs) and grid connectable power. The major challenge faced in the solar thermal projects is the successful execution of the technology with stable CUFs. The long-term viability of the solar thermal projects is yet to be seen in India. However, these projects are having stable operations in USA and some parts of Europe.

Dependence on weather conditions (sunlight) for power generation

The generation of power from solar thermal technology depends on weather conditions and solar irradiance (i.e. availability of sufficient sunlight) which is a natural, uncertain and an uncontrollable factor.

<u>Liquidity: Adequate</u>

The working capital utilization for the 12 months ending July 2020 stood at 11.45% thus providing comfortable liquidity backup. The cash & cash equivalents including DSRA as on June 30, 2020 was Rs 14.54 crore   Additional FD of Rs. 4.5 crores has been created on August 10, 2020 to build cash reserve to the extent of NVVN's demand notice. The projected cash available for debt servicing in FY21 is ~Rs. 84.85 crores against cash outflow towards debt servicing of ~Rs. 57.65 crores.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology - Infrastructure Sector Ratings
Rating Methodology - Private Power Producers

About the Company
GGEL, an SPV wholly owned by Godawari Power & Ispat Ltd (GPIL), has set up a 1 x 50 MW solar-thermal power plant in Jaisalmer district, Rajasthan. The project was awarded under Jawaharlal Nehru National Solar Mission (JNNSM) of the Government of India (GoI), Phase-I, launched by the Ministry of New and Renewable Energy (MNRE) through the designated agency NTPC Vidyut Vyapar Nigam Limited (NVVN), a subsidiary of NTPC. GGEL has signed a PPA for entire capacity with NVVN at a tariff of Rs.12.20 per unit for 25 years. The cost incurred on the project was Rs.868.20 crore and funded by equity of Rs.252.02 crore and debt of Rs.616.18 crore (DER of 2.44:1) The project started commercial operations with effect from October 1, 2013 on account of teething issues. During FY17, the company has refinanced debt under RBI's 5/25 scheme with a similar debt of longer maturity (15 years as compared to 10 years earlier) to align with the expected life and cash flows of the plant.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	93.58	101.09
PBILDT	79.31	84.82
PAT	-1.03	-0.21
Overall gearing (times)	2.04	1.89
Interest coverage (times)	1.49	1.87

A: Audited

Status of non-cooperation with previous CRA:

Any other information: Not applicable

Rating History for 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-Term Loan	-	-	FY32	387.67	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	7.00	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-Term Loan	LT	387.67	CARE BBB; Stable	-	1)CARE BBB; Stable (01-Oct-19)	1)CARE BBB; Stable (03-Aug-18)	1)CARE BBB; Positive (26-Oct-17) 2)CARE BBB-; Stable (11-Apr-17)
2.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	-	-	1)Withdrawn (11-Apr-17)
3.	Fund-based - LT-Cash Credit	LT	7.00	CARE BBB; Stable	-	1)CARE BBB; Stable (01-Oct-19)	1)CARE BBB; Stable (03-Aug-18)	1)CARE BBB; Positive (26-Oct-17) 2)CARE BBB-; Stable (11-Apr-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Particulars	Detailed explanation
A. Financial covenants	
I. DSCR (Debt Service Coverage Ratio)	Should be 1.05x or more. Lenders have right of 100% cash sweep if DSCR exceeds 1.20x for surplus accruals.
II. FACR (Fixed Asset Coverage Ratio)	Should be 1.10x or more
III. DSRA (Debt Service Reserve Account)	GGEL to maintain 1 quarter principal repayment and 1 month interest out of surplus funds
B. Non-financial covenants	
I. Minimum holding of GPIL (Godawari Power & Ispat Limited)	GPIL to hold minimum 51% of equity in GGEL till the loan tenure

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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