

Star Wire (India) Vidyut Private Limited

February 27, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long-term Bank Facilities	35.68	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable)
Total facilities	35.68 (Rs. Thirty five crore and sixty eight lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long term ratings of Star Wire (India) Vidyut Private Limited (SWIVPL) factors improvement in the capital structure, consistent performance as reflected from stable operational performance, cash profits and liquidity position. Further, the rating continue to draw comfort from experienced management, moderate profitability margins and coverage indicators, 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 modest scale of operations, elongated operating cycle, 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.

Rating Sensitivities

Positive Factors

- Improvement in capital structure as marked by overall gearing ratio below unity on sustained basis.

Negative Factors

- Decline in profitability margins as marked by PBILDT and PAT margins below 18.00% and 4.00% respectively.
- Any delay in realization from HPPC would adversely elongate the operating cycle
- Any cost overrun in the project in subsidiary company funded through SWIVPL, thereby impacting the liquidity position of the company

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.

Moderate profitability margins and coverage indicators

The profitability margin of the company continues to remain moderate as marked by PBILDT margin of 36.90% in FY19 as against 41.29% in FY18. The slight decline in PBILDT margin was on account of increase in repairs and maintenance expenses. Though the PAT margin improved on account of lower interest and depreciation expenses. Furthermore, in 9MFY20 (Provisional: refers to the period from April 01 to December 31), the PBILDT and PAT margins stood at 34.99% and 15.42% respectively.

Owing to moderate profitability, the coverage indicators of the company continues to remain moderate as marked by interest coverage and total debt to GCA of 3.31x and 3.64x respectively for FY19 as against 3.20x and 3.31x respectively for FY18. In 9MFY20 (Provisional: refers to the period from April 01 to December 31).

Improvement in capital structure

The capital structure of the company improved as marked by overall gearing ratio which stood at 2.72x as on March 31, 2019 as against 5.83x as on March 31, 2018. The improvement in the capital structure is on account of repayment of

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

rupee term loan coupled with higher networth base owing to accretion of profits to reserves. The capital structure has further improved as marked by overall gearing ratio of 1.81x as on December 31, 2019.

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

The company has entered into a 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. SWIVPL has been issuing invoices on monthly basis i.e. on the last working day of the month and normally receives payment within 60 days from clearance of invoice by Haryana Power Purchase Centre (HPPC). However any delay in the payment period by HPPC beyond the stipulated period may result in liquidity position and would be key rating sensitivity for the company.

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, 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, the State Electricity Regulatory Commissions (SERCs) 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 Weakness

Modest scale of operations

The scale of operations continues to remain modest marked by total operating income and gross cash accruals of Rs. 54.20 crore and Rs. 14.51 crore respectively in FY19 (refers to period starting from April 01 to March 31 ; based on audited results) as against Rs. 54.65 crore and Rs. 17.27 crore during FY18. Further, the net worth base also remains relatively modest at Rs. 19.41 crore as on March 31, 2019. The slight dip in scale of operations was on account of shut down of plant for 15 to 20 days for undertaking the maintenance activity. The modest scale limits the company's financial flexibility in times of stress and deprives it from scale benefits. The company has achieved total operating income of Rs. 44.81 crore during 9MFY20 (refers to the period April 01 to December 31, based on provisional results).

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, and as per the agreement with gram panchayat, the company has adequate raw material available for the un-interpreted production process. The average inventory stood at 22 days for FY19. 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 on 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 101 days in FY19 as against 82 days in FY18. On the contrary, lower period is received by SWIVPL from the suppliers, which upsurges SWIVPL reliance on external borrowings to meet working capital requirements. The average utilization of the working capital limits remained utilized around 75% for the past 12 month period ending December 31, 2019.

Project execution and stabilization risk

During FY19, SWIVPL has invested Rs.8.75cr in the acquisition of Indeen Biopower Limited (IBL). The latter is implementing a biomass project with estimated total cost of Rs.62cr funded through debt of Rs.45cr and remaining through equity contribution (Rs.8.75cr already infused during FY19). Presently the project implementation is in initial stages and financial closure for the debt is yet to be achieved. As per the initial plan, the company is expected to commence commercial operations from April'21. Therefore considering the initial stages of operations, and pending financial closure and equity infusion, the project carries significant 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 interpretation in the power generation affecting the revenue.

Liquidity: Adequate- The liquidity position of the company remained adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The company generates GCA of Rs. 14.51 crore and cash & bank balances of Rs. 1.90 crore against repayment of Rs. 3.34 crore in FY19. The working capital limits are utilized around 75% for the past 12 month's period ending December, 2019.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for private power producers](#)

[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 crores)

Brief Financials (Rs. crore)	FY18(A)	FY19 (A)	9MFY20 (Prov.)*
Total operating income	54.65	54.20	44.81
PBILDT	22.56	20.00	15.68
PAT	2.97	9.53	6.91
Overall gearing (times)	5.83	2.72	1.81
Interest coverage (times)	3.20	3.31	3.15

A-Audited; Prov. - Provisionals

* refers to the period from April 01- December 31, 2019.

Status of non-cooperation with previous CRA: Not Applicable

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	-	-	-	12.50	CARE BB+; Stable
Fund-based - LT-Term Loan	-	-	December, 2028	23.18	CARE BB+; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	12.50	CARE BB+; Stable	-	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	23.18	CARE BB+; Stable	-	1)CARE BB-; Stable (26-Feb-19) 2)CARE BB-; Stable (20-Nov-18) 3)CARE B; Stable (27-Apr-18)	-	-

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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