Surana Telecom and Power Limited

December 09, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	34.21	**CARE BBB; Stable (Triple B; Outlook: Stable)**	Assigned
Short Term Bank Facilities	3.50	**CARE A3 (A Three)**	Assigned
Total	**37.71 (Rupees Thirty Seven crore and Seventy One lakh only)**		

**Details in Annexure I.*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Surana Telecom and Power Limited (STPL) derive comfort from experienced promoters, established track record of Hyderabad based Surana Group, long-term Power Purchase Agreements (PPAs) with various DISCOMS and reputed organizations albeit a few moderate counterparties, satisfactory operating efficiency of the company, comfortable leverage and coverage indicators and stable industry outlook.

The rating strengths, however, are partially offset by significant exposure towards associate and group companies, risk related to commissioning and stabilization of 3 MW capacity and susceptibility of power generation to variation in climatic conditions & technological risk associated with solar power plants.

Key Rating Sensitivities:

Positive Sensitivities:

- ✓ Consistent improvement in average CUF levels with above 18%
- ✓ Curtailing exposure to group companies
- ✓ Improvement in average receivable period to less than a month.

Negative Sensitivities:

- × Delays in receipt of payments from off-takers for more than three months on a continuous basis, going forward
- × Subdued operational performance with CUF lower than 15% level, in future.
- × Any significant increase in exposure to group entities by way of advancing loans and/or advances.
- × Overall gearing deteriorating beyond 1x, in future.

Detailed description of the key rating drivers

Key Rating Strengths:

Experienced promoters

STPL was promoted by Mr. Narendra Surana and Mr. Devendra Surana in 1989. The Managing Director of the company; Mr. Narendra Surana is a Chemical Engineer and has more than two decades of experience in renewable energy sector and more than three decades of experience in metal and telecom industry. Mr. Devendra Surana is a Mechanical Engineer from Osmania University and holds a Post Graduate Diploma in Management from IIM, Bangalore. He has been in the field of Ferrous & Non Ferrous & Telecom Industry for the more than three decades and has experience of two decades in renewable energy sector. The promoters are assisted by a team of qualified professionals down the line.

Established track record of Hyderabad based Surana Group

Founded in 1978, the Surana Group is a Hyderabad based well diversified business conglomerate with focus on areas of Telecommunications, Copper rods, Copper Pipes, Copper Sheets, Copper Foils, Power Cables and Wind & Solar Power generation. The group consists of around forty companies with an overall track record of over four decades.

The companies in the group derive benefit from operational synergies within the group. Like, STPL receives all the replacement equipment such as PV modules from Surana Solar Limited and also Operations & Maintenance (O&M) is done in-house and no outside O&M contractor needs to be appointed.

Long-term Power Purchase Agreements (PPAs) with various DISCOMS and reputed organizations

STPL for its 25 MW operational capacity has long term PPAs tied up with various state distribution companies such as Gujarat Urja Vikas Nigam Limited, Uttar Pradesh Power Corporation Limited (UPPCL) and Southern Power Distribution Company of

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

Telangana Limited (TSSPDCL) along with reputed organizations like Tata Communication Limited (TCL) and Bhagyanagar India Limited (BIL). The tariff ranges between Rs.5.60/Kwh to Rs.15/Kwh depending upon location and the off-taker.

Satisfactory operating efficiency of the company in various locations:
The performance of various plants has been satisfactory and remained stable during past three years. The semi-arid zone and predominantly hot climate in Telangana and Gujarat states results in long summer and comparatively mild winters. Thus, electricity generation is satisfactory across the year except relatively lower generation during Aug-Oct due to onset of monsoon. During FY20, the average CUF of the company stood at 16.41% as against 17.50% during FY19.
During H2FY20 and H1FY21, the company undertook some repairs in its located in Telangana and Uttar Pradesh resulting in lower CUF during FY20 and H1FY21. Nevertheless, the said repairs are expected to improve efficiency of the plants going forward.

Satisfactory financial performance of the company:
The total operating of the company has remained broadly stable during FY18-FY20 with marginal variation primarily on account of different CUF levels and revenue from sale of Renewable Energy Certificates. The PBILDT margin of the company declined from 68.62% during FY19 to 65.30% during FY20 on account of expenses towards major repairs/maintenance undertaken at various power plants to increase the efficiency. However, PAT margin almost doubled from 11.95% during FY19 to 22.89% during FY20 on account of extraordinary profit of Rs.5.70 crore from sale of assets.
Further, the company also owns a few industrial and real estate properties which are leased out for commercial purposes and STPL generate a steady annual rental income of about Rs.1.70 crore.

Comfortable leverage and coverage indicators:
The overall gearing of the company has remained comfortable below unity at 0.41x as on March 31, 2020 having marginally improved from 0.44x as on March 31, 2019. The debt profile of the company comprises of term debt, vehicle loans, working capital borrowings and loans availed from related parties. The average utilization on the fund based limits for the past twelve months ending September, 2020 has remained low at ~8%. The PBILDT interest coverage ratio of the company stood comfortable at 4.17x during FY20 having improved from 3.60x in FY18 on account of lower interest expenses at the back of scheduled repayment of term debt. The other debt coverage indicator, total debt to GCA stood moderate at 2.24x during FY20 (2.87x during FY19).

Key Rating Weaknesses:
Significant exposure towards associates:
STPL has been supporting its associates/group companies by way of extending loans and advances or making investment in the form of equity in such entities. The exposure of STPL in its associate companies is around Rs.48.35 crore as on March 31, 2020 by way of equity investments/ loans/advances (Rs.45.03 crore as on March 31, 2019) which is ~45% of its net-worth. Also, STPL raises bank debts at holding level to support business operations of subsidiary. Going forward, curtailing such exposure will remain critical from rating perspective.

Small sized entity:
Despite being present in the industry for more than three decades, the company remains a relatively small sized entity with a total operating income of Rs.31.40 crore in FY20 and a moderate net worth base of Rs.108.81 crore as on March 31, 2020. The company does not foresee any capex expenditure or asset addition in the near future and thus, the scale is expected to remain stable.

Stretched financial position of few off takers:
STPL is vulnerable to counterparty credit risk of few off-takers such as TSSPDCL and UPPCL; given their stretched financial profile and instances of delayed payments to their creditors. There have been significant delays in receipt of payments from TSSPDCL with payment cycle extending to almost ten months.

Pending grid access approval for 3MW capacity:
STPL has 3MW solar power plant in Telangana operating under its wholly owned subsidiary “Tejas India Solar Energy Private Limited”. The company has successfully installed the solar power plant, however, it is awaiting for open access approval from the Government.

Exposure of the project towards climatic conditions and technological risk:
The CUF level of a solar power plant primarily depends upon factors like solar radiation levels, temperature and climatic conditions, losses in PV systems and transmissions efficiency of the design parameters of the plant and inverters installed, module ageing and degradation etc. While losses in PV systems, design parameters, inverter efficiency and module

degradation depend on the overall manufacturing pattern and technical soundness of the modules, solar irradiance levels and overall climatic conditions are beyond human control and thus have the potential to adversely affect the operational efficiency of a solar power plant

Liquidity analysis: Adequate

The liquidity profile of the company is adequate. The company has been generating sufficient cash accruals vis-à-vis the repayment obligations. With a gearing of 0.41 times as of March 31, 2020, the issuer has sufficient gearing headroom, to raise additional debt for its capex. The utilization of working capital limits remained modest. Net cash flows from operations amounted to ~Rs.16 crore and cash & cash equivalents amounted to Rs.1.75 crore as on March 31, 2020. The company has not availed moratorium for any of its bank facilities.

Analytical Approach: Consolidated

[CARE has analyzed the consolidated financials of Surana Telecom and Power Limited and its three subsidiaries, Surana Solar Systems Private Limited, Tejas India Solar Energy Private Limited and Aryavaan Renewable Energy Private Limited while arriving at the ratings of Surana Telecom and Power Limited; During Oct. 2020, STPL has added another subsidiary namely Bhagayanagar Green Energy Ltd. (BGEL).]

Applicable Criteria

Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Rating Methodology-Private Power Producers
Rating Methodology- Solar Power Projects
Rating Methodology-Consolidation and Factoring Linkages in Ratings
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Surana Telecom and Power Limited (STPL), incorporated as Private Limited Company in August 1989 as Surana Petro Products Private Limited was promoted by Mr. Narendra Surana and Mr. Devendra Surana. Initially, the company was engaged in the business of manufacturing of Petro Products such as petroleum jelly and telecom products such as jointing kits. The company was reconstituted into "Public Limited" on July 09, 1993. In 1994, the company ventured into the telecom sector and was engaged in production of optic fibre cables, consequently it changed its name to "Surana Telecom Limited". Further, during 2007, the company diversified into power sector with the manufacturing of low tension and high tension power cables, subsequently the company's name was once again changed to "Surana Telecom and Power Limited".
The Company is presently engaged in the business of generation of solar and wind energy. In the year 2011- 12, the company started with setting up a 5 MW Solar Power Project in Gujarat. Since then, the company has added several solar plants in its portfolio at holding as well as subsidiary level. At present, there are six solar power plants of 28 MW capacity (25 MW commissioned) and one wind power plant of 1.25 MW capacity in its portfolio.

Brief Financials (Rs. crore)- Consolidated	FY19 (A)	FY20 (A)
Total operating income	33.38	31.40
PBILDT	22.91	20.51
PAT	5.76	6.92
Overall gearing (times)	0.45	0.41
Interest coverage (times)	4.61	4.17

A-Audited

Status of non-cooperation with previous CRA: Brickwork Ratings has placed the ratings of STPL under "Issuer not cooperating" category vide its press release dated October 28, 2020 as the company did not provided requisite information for review.

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	-	-	September 2029	32.21	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	2.00	CARE BBB; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	3.50	CARE A3

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	32.21	CARE BBB; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	2.00	CARE BBB; Stable	-	-	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	3.50	CARE A3	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated facilities: NA

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
3.	Non-fund-based - ST-Bank Guarantees	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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