

May 31, 2022

## Sri Kirthi Power Solutions India Private Limited: Rating downgraded

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loan	4.88	4.83	Downgraded to [ICRA]B+(Stable) from [ICRA]BB-(Stable)
Fund-based - Unallocated	5.12	5.17	Downgraded to [ICRA]B+(Stable) from [ICRA]BB-(Stable)
<b>Total</b>	<b>10.00</b>	<b>10.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The revision in the rating factors in the delays in the realisation of payments from its sole customer - Telangana State Southern Power Distribution Company Ltd (TSSPDCL) - for its 2-MW solar power project in Telangana. The receivable position of the company remains stretched with bills not cleared since January 2021, reflecting a receivable period of 14-15 months, owing to the modest financial position of the offtaker. While the company's current liquidity position remains stretched (cash and bank balances of Rs. 0.13 crore as on March 31, 2022 against a repayment of Rs. 1.29 crore due in FY2023), any further delays or non-receipt of payments from the offtaker may deteriorate the liquidity position further. Going forward, the realisation of the overdue payments by Sri Kirthi Power Solutions Pvt Limited (SKPSIPL) remains a key rating sensitivity. Moreover, a sustainable improvement in monthly collections from TSSPDCL remains a key rating monitorable.

The rating is further constrained by the company's exposure to the risk of variability in solar generation due to the single-part nature of the competitively bid tariff and the exposure to geographical asset concentration risk. The rating is also constrained by the plant's low PLF at 14.9% in FY2021 and 16.7% in FY2022, which is lower than the P-90 estimates of 17.5%.

The rating, however, draws comfort from the long-term PPA with the state-owned distribution utility, Telangana State Southern Power Distribution Company Limited (TSSPDCL), at a tariff rate of Rs. 6.45 per unit for 20 years, which limits demand and tariff risks.

### Key rating drivers and their description

#### Credit strengths

**Limited demand risk with long-term PPA** – The company had signed a PPA with TSSPDCL for the 2.0-MW capacity for a period of 20 years from the COD i.e. March 31, 2016, at a tariff rate of Rs. 6.45 per unit, which limits demand and pricing risks.

**Operational since March 2016** – The 2-MW solar power plant is operational since March 31, 2016, thereby eliminating the execution risk associated with under-construction projects.

#### Credit challenges

**High counterparty credit risk; continuous delays in receiving payments from TSSPDCL**– As TSSPDCL offtakes the entire power generated by the asset, SKPSPL remains exposed to the state discom's credit risk profile. There have been significant delays in payments by the counterparty due to which the company's receivable cycle has stretched, adversely impacting its overall liquidity profile. While the company received some payments in FY2022 and April 2022 from the discoms, the overdue position continues to be stretched with the company's receivable position at 14-15 months as of April 2022. Going forward, the

realisation of overdue payments by SKPSIPL remains a key rating sensitivity. Moreover, a sustainable improvement in monthly collections from TSSPDCL remains a key rating monitorable.

**Power generation continues to be lower than P90 estimates**— The solar power plant continues to report subdued performance since COD with generation lower than the P-90 estimates of 17.5%. The company reported an average PLF of 14.9% in FY2021 and 16.7% in FY2022. While ICRA notes that the company has replaced some parts and carried out other minor repair works, a sustained improvement in generation remains to be demonstrated.

**Weak cost competitiveness of PPA tariff and interest rate risk** – SKPSIPL remains exposed to the risk of future reduction in offtake/grid curtailment by TSSPDCL, given the relatively high PPA tariff of Rs. 6.45 per unit against the average power purchase cost of the state distribution utility and the competitively bid tariff rates for sourcing solar energy. Nonetheless, the company has not faced any grid availability issues from TSSPDCL till date. SKPSIPL’s debt coverage metrics remain exposed to the interest rate movement, given the single part and fixed tariff under the PPA.

**Single-asset operations; cash flows vulnerable to variability in solar irradiation** - SKPSIPL is entirely dependent on power generation by the solar power project for its revenues and cash accruals, given the single-part nature of the tariff. As a result, any adverse variation in weather conditions may impact its PLF and consequently its cash flows. The single location and single asset nature of the company’s operations amplifies this risk though the same is mitigated to an extent by the operational track record of the plant since its COD in March 2016.

## Liquidity position: Stretched

The company’s liquidity position is stretched due to delays in receipt of payments from TSSPDCL. It has external term loan of Rs. 4.28 crore as on March 31, 2022 of which Rs. 1.29 crore is scheduled to be repaid in FY2023. While the cash accruals are expected to tightly match against the repayment obligations in FY2023 and FY2024, the release of past dues by the discom is expected to support the repayments. Further, need-based timely support from promoters, as demonstrated in the past, would remain critical from a credit perspective.

## Rating sensitivities

**Positive factors** - ICRA may upgrade the ratings if the company’s debtor position improves on a sustained basis, leading to an improved liquidity position.

**Negative factors** - Negative pressure on the ratings may arise if the payment from TSSPDCL is delayed further, adversely impacting its weak liquidity position. Moreover, any deterioration in the operational performance of the plant may result in a downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">ICRA's methodology for Solar Power Producers</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

## About the company

SKPSIPL has developed a 2.0-MW solar power plant in the Nalgonda district of Telangana, which commissioned operations on March 31, 2016. The company has signed a PPA with TSSPDCL for 20 years with a feed-in tariff rate of Rs. 6.45 per unit. The

total cost of the project is Rs. 12.34 crore and is part funded by a term loan of Rs. 8.00 crore and promoter's equity of Rs.4.34 crore.

## Key financial indicators

Standalone	FY2020	FY2021
Operating Income (Rs. crore)	1.68	1.93
PAT (Rs. crore)	0.20	0.42
OPBDIT/OI (%)	80.88%	81.73%
PAT/OI (%)	11.92%	21.77%
Total Outside Liabilities/Tangible Net Worth (times)	2.04	1.95
Total Debt/OPBDIT (times)	4.90	4.54
Interest Coverage (times)	2.14	3.06
DSCR (times)		

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year), (P)-Provisional*

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

**Any other information: None**

## Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 21, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 31, 2022	-	Feb 4, 2021	Feb 27, 2020
1	Term Loans	Long-term	4.83	4.83	[ICRA]B+ (Stable)	-	[ICRA]BB- (Stable)	[ICRA]B (Stable)
2	Unallocated	Long-term	5.17	--	[ICRA]B+ (Stable)	-	[ICRA]BB- (Stable)	[ICRA]B (Stable)

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

**Annexure-1: Instrument details**

ISIN No/Banker's name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Feb 2021	8.5%	FY2026	4.83	[ICRA]B+ (Stable)
NA	Unallocated	NA	NA	NA	5.17	[ICRA]B+ (Stable)

**Annexure-2: List of entities considered for consolidated analysis- Not applicable**

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