Rating Rationale

Ghodawat Energy Pvt. Ltd.

14 Jan 2019

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 51.43 Crores of Ghodawat Energy Pvt. Ltd..

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous # (March, 2017)	Present
Fund based	**73.54**	**51.43**	**Long Term**	**BWR A- (SO)** [BWR A Minus (Structured Obligation) **Outlook: Stable**	**BWR A- (SO)** [BWR A Minus (Structured Obligation) **Outlook: Stable** *Reaffirmed*
Total	**73.54**	**51.43**	**INR Fifty One Crores and Forty Three Lakhs Only**		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I
Rating was migrated to Rating Not Reviewed category on 07 Aug '18.

Ratings: Reaffirmed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financial results up to FY 18, 8M FY 19 provisional numbers, publicly available information and information/clarifications provided by the company management.

The rating has, inter alia, factored in the promoters' experience in operating wind farms in various states, Power Purchase Agreements signed with both – state government utilities and private players, secured loan servicing by way of escrow mechanism, modest capital structure stable revenues projected, after discounting for age of the wind mills and PLF.

However, the rating is constrained by the risk associated with the expiration of PPAs in the near term, current ageing of windmills with limited lifespan, inherent risk in wind energy business which is dependent on vagaries of nature.

Description of Key Rating Drivers

- **Credit Strengths:**

Parentage: The company is part of Ghodawat Group having presence in diverse sections of the industry. The promoters along with the management possess sufficient experience in the line of business.

Liquidity: The loan is self liquidating with an escrow management ensuring enhanced serviceability.

DSRA Obligation: Maintenance of a DSRA, in form of lien-marked FD, equivalent to a quarter's principal as well as interest provides a sufficient cover to service the interest obligations.

Predictable Cash Flows: The consistent flow of rentals from the PPAs is expected to comfortably cover the debt servicing obligations over the term of the loan.

Profitability: Operating Profit Margin & Net Profit Margin & at 27.18% & 54.38% are relatively high. However, the net profit is largely supported by the non operating income from its investments.

- **Credit Risks:**

Scale of Operations - The company's operations are on a relatively low scale of operations .

PPA Renewals: PPAs nearing the term may affect consistent receivables, while the ability to negotiate a higher price possess stiff challenge as the industry now faces increased competition and lower rates.

Ageing Assets: Few of the Wind Power Turbines is nearing the age of its maturity of 25 years, thus requiring the management to consider capital expenditure.

Plant Load factor (PLF): The wind energy sector usually witness a low plant load factor of around 20%, thus not able to achieve optimal utilisation level.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable*

BWR believes the **Ghodawat Energy Pvt. Ltd.** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues and profit margins show lower than expected figures, inability to renew PPAs on time as well as ageing windmills resulting in additional capital expenditure.

About the Company

Ghodawat Energy Pvt. Ltd. (GEPL), part of the Ghodawat Group commenced its operations in 1993. It is engaged in generation wind power from its 96 turbines of various capacities totaling to 53.38 MW spread across Gujarat, Maharashtra, Karnataka and Rajasthan. The power is sold to state distribution companies at a tariff of Rs. 3.5-5.7 as well as trading of power to third parties at a tariff of Rs. 3.00 - 3.50 through open access in state of Maharashtra out of the total installed capacity of 53.38 MW. The company is planning to direct sale of electricity to industrial users, Trading of Renewable Energy Credits, and direct trading of Power on Indian Energy & Power Exchanges to broaden the income streams of the company and enhance profitability.

About the Group:

Ghodawat Group, established by Mr. Sanjay Ghodawat, is a well-diversified group with its presence in various high value industry sectors like Wind Power, High Tech Agriculture, Chemicals, Flexible Packaging, Edible Oil, Real Estate, FMCG, Energy, Mining, Education and Aviation.

Structured Obligation:

Escrow mechanism for project receivables

The bank has an exclusive first charge by way of escrow mechanism on the entire receivables generated from sale of power, present & future through windmills. The company is required to main a Debt Service Reserve Account equivalent to a quarter's interest & principal installment.

Company Financial Performance

As per audited financials for FY18, Total Operating Income decreased to Rs. 18.28 crs in FY 18 (v. Rs. 25.25 crs) in FY 18, a decrease of ~28.00% primarily on account of windmills under maintenance resulting in lower operations. Profits relative to the revenues remained high, with Operating profit & Net Profit at Rs. 4.97 crs (v. Rs. 11.61 Crs) & Rs. 9.94 Crs (v. 13.19 crs) respectively. The non operating income forms a large part of the business with Rs. 18.13 Crs (v. Rs. 19.32 Crs). Tangible Net worth increased to Rs. 234.87 Crs, while the Total Debt declined to Rs. 98.52 Crs, resulting into a gearing ratio of 0.42x (v. 0.49x). Coverage ratio indicate insufficiency with ISCR at 0.55x (v. 1.03x). However, adjusting for non operating income, ISCR improves to 6.31x.

As per provisional numbers for 8M FY 19, Total Income stands at Rs. 26.46 Crs (v. 17.04 Crs) with EBITDA & PAT at Rs. 12.31 Crs (v. Rs. 8.66 Crs) & Rs. 3.08 Crs (v. Rs. 1.07 Crs) respectively.

Rating History for the last three years

S.No	Instrument /Facility	Current Rating			Rating History		
		Type	Amount (₹ Crs)	Rating	07 Aug 18	09 Mar 17	31 Dec 16
1.	**Fund Based**	Long Term	51.43	**BWR A- (SO)** [BWR A Minus (Structured Obligation)] **Outlook: Stable**	**A- (SO) Rating Not Reviewed**	**A- (SO)**	**A- (SO) Rating Not Reviewed**
	Total		**51.43**	**₹ Fifty One Crores and Forty Three Lakhs Only**			

Status of non-cooperation with previous CRA (if applicable)-Reason and comments
NA

Key Financial Indicators

Key Parameters	Units	2017	2018
Result Type		**(Audited)**	**(Audited)**
Operating Revenue	Rs. Crs	25.25	18.28
EBITDA	Rs. Crs	11.61	4.97
PAT	Rs. Crs	13.19	9.94
Tangible Net worth	Rs. Crs	224.93	234.87
Total Debt/Tangible Net worth	Times	0.49	0.42
Current Ratio	Times	0.90	0.95

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios

- [Structured Obligation (SO) Instruments](#) [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.
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