Press Release

Mayfair Renewable Energy Private Limited

March 01, 2021

Rating

Instrument / Facility	Amount (Rs. Crore)	Current Rating	Previous Rating	Rating Action
Long Term Bank Facilities – Term Loan	81.64 ^ (reduced from Rs.90.67 crore)	IVR A+ [CE]; Stable Outlook (IVR Single A Plus [Credit Enhancement] with Stable Outlook) *	IVR A- [CE]; Stable Outlook (IVR Single A Minus [Credit Enhancement] with Stable Outlook) *	Revised
Total	**81.64**			

**CE rating based on irrevocable and unconditional corporate guarantee from OPG Power Generation Private Limited*
^Outstanding as on December 31, 2020

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the rating assigned to the bank facilities of Mayfair Renewable Energy Private Limited (MREPL) takes into account the healthy credit profile of the corporate guarantor - OPG Power Generation Private Limited (OPGPL). The rating also considers improvement in financial performance of MREPL in FY20 and 9MFY21. The irrevocable and unconditional corporate guarantee results in credit enhancement in the rating of the said instrument to **IVR A+ (CE)/Stable Outlook (IVR Single A Plus [Credit Enhancement] with Stable Outlook)** against the unsupported rating of **IVR BB+/Stable (IVR Double B plus with Stable Outlook)**. Further, the rating also continues to derive strength from availability of long term PPA with Hubli Electricity Supply Company Limited (HESCOM), locational advantage and Government's thrust on solar energy. However, these rating strengths continues to be constrained by its relatively nascent stage of operations, capital intensive nature of the project, variance in cash flows due to fluctuation in solar irradiance, dependence on climatic conditions and exposure to interest rate risk.

Key Rating Sensitivities:

Upward factors

- Stabilisation of operation and achieving projected PLF.
- Timely receipt of payments against generation invoices from HESCOM

- Improvement in the capital structure with overall gearing below 2x and improvement in debt protection metrics with interest coverage ratio over 3x
- Improvement in financial risk profile of the corporate guarantee provider

Downward factors

- Reduction in PLF impacting the operating performance thereby the profitability on a sustained basis
- Significant delays in receipt of payments from HESCOM
- Deterioration in debt protection metrics with interest coverage ratio below 2x and overall gearing ratio over 3x
- Deterioration in financial risk profile of the corporate guarantee provider

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Strong Parentage

Mayfair Renewable Energy Private Limited (MREPL) is sponsored by OPG Power Generation Private Limited (OPGPL) belonging to OPG group, being one of the leading power generating companies in the country, operating 414 MW thermal power projects in India. OPGPL with over a decade of operation is a reputed name as a developer and operator of power plants in India with a track record of delivery and experienced management team. MREPL is currently governed by a two-member Board of Directors comprising Mr. Puneet Goyal and Mr. ES Purushotham. Both Mr. Puneet Goyal and Mr. ES Purushotham are engineers by profession and have considerable experience in the solar power sector. The Directors are duly supported by a team of experienced and qualified professionals in managing the affairs of the company.

Corporate guarantee from the promoters

The bank facilities of MREPL are backed by irrevocable and unconditional corporate guarantee from OPGPL. Over the period MREPL has received need-based funding support from its promoter OPGPL. Going forward, Infomerics believes timely, need based financial support will continue to be extended by the parent, in case of pressure on cash flows.

Locational advantage

The plant is located at Ron Taluk, Gadag District, Karnataka which is at a distance of 6 kms from the nearest substation for power evacuation located at Naregal, District Gadag, thus providing the company with locational advantage. The insolation at the site is around 5 kwh/m2/day which is above annual average. The location is considered to be a high potential site for solar power generation.

Availability of long term PPA with a Government body ensures revenue visibility and relatively lower counterparty credit risks

The entire 20 MW capacity of the project has been tied up with Hubli Electricity Supply Company Limited (HESCOM) for 25 years at a tariff of Rs.5/Unit. The PPA tariff is cost competitive from the offtakers' perspective which in turn substantially mitigates the counter party credit risk. Also, presence of robust payment security mechanism in PPA with HESCOM limits the counterparty risk to a certain extent.

Satisfactory PLF since commissioning of the project

The project has had a generation track record of around 2 years and 9 months and the actual generation performance has been in line with generation estimates.

Healthy financial profile of the guarantor - OPGPL

The capital structure of OPGPL remained comfortable by its strong net worth base of Rs. 1115.11 crore as on March 31, 2020. The overall gearing ratio remained comfortable as on the past three fiscals and stood at 0.47x as on March 31, 2020 (0.67x as on March 31, 2019). The interest coverage ratio remained comfortable at 2.85x in FY20 (2.79x in FY19).

Improvement in financial performance of MREPL and 9MFY21

The solar power project was commissioned from March 2018 and FY19 was the first full year of operation for the company. Total operating income witnessed a marginal y-o-y growth of 5.26% from Rs.15.59 crore in FY19 to Rs.16.41 crore on account of improvement in PLF level. EBITDA margin also improved from 83.30% in FY19 to 93.50% in FY20 on account of decline in operational and administrative cost which is generally incurred during the initial year in order to stabilise the operations of the company. Further, on account of deferred tax adjustments, PAT margin improved substantially and stood at 20.10% in FY20 as against net loss of 27.07% in FY19. GCA also improved from Rs.5.49 crore in FY19 to Rs.6.50 in FY20. During 9MFY21, the company generated a revenue of Rs.12.40 crore with a PBT of Rs.0.75 crore.

Government's thrust on solar energy

The Government of India has provided a thrust on developing renewable energy generation including solar power. The Ministry of New and Renewable Energy (MNRE) has set an ambitious target to set up renewable energy capacities to the tune of 175 GW by 2022 of which about 100 GW is planned for solar.

Key Rating Weaknesses

Relatively nascent stage of operations

The company commenced its operations with effect from March 28, 2018 and is relatively at its nascent stage of operations. However, the company is expected to receive continuous support with OPG Group's vast experience in the power sector.

Capital Intensity of the project

Solar PV systems are capital intensive and is at a nascent stage in India. The cost incurred for the project is a huge investment, given the fact that power project generally has long gestation. This high capital intensity along with uncertainty associated with achievement of desired PLF makes the solar power project less competitive vis-à-vis other forms of power projects. Due to high capital outlay, the capital structure of the company remained leveraged with the overall gearing and TOL/TNW at 2.61x and 3.54x respectively as on March 31, 2020. However, the interest coverage ratio was moderate at 2.46x in FY20.

Variance in cash flows due to fluctuation in solar irradiance

The key factors that may impact the operations of the solar plant are solar radiation levels, losses in PV systems owing to temperature and climatic conditions, design parameters of the plant, inverter efficiency and module degradation due to ageing. However, the variance in solar irradiance levels has historically been much lower than the variation in other sources of renewable energy such as wind and hydro-power projects.

Dependence on climatic conditions

The industry is weather dependent. Only those areas that receive good amount of sunlight are suitable for producing solar energy. During daytime, the weather may be cloudy or rainy, with little or no sun radiation. This makes solar energy panels less reliable as a solution.

Exposure to interest rate risk

The project remains exposed to interest rate risk, given the single part fixed nature of tariff.

Analytical Approach: Credit Enhancement (CE) rating: Assessment of the credit profile of OPG Power Generation Private Limited, provider of irrevocable and unconditional corporate guarantee to the bank facilities aggregating to Rs.95.62 crore of MREPL.

Unsupported rating: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Parent & Group Support

Rating methodology for Structure Debt Transactions (Non-securitisation Transactions)

Liquidity - Adequate

The liquidity profile of the company appears to be adequate marked by its expected gross cash accruals in the range of Rs.8-9 core as against debt repayment obligation of Rs.6.38 crore during FY21-23. Infomerics also factors in the presence of a reputed parent OPGPL, which can support the project in case of a shortfall in funds.

About the Company

Mayfair Renewable Energy Private Limited (MREPL) is a Special Purpose Vehicle established to set up a 20MW AC/22.40 MW DC Solar PV Project at Ron Taluk, Gadag District, Karnataka. MREPL is sponsored by OPG Power Generation Private Limited (OPGPL), one of the leading power generating company operating 414 MW Thermal Power Projects in India. The other shareholders are Samriddhi Energy Private Limited (part of OPG Group) and IBC Solar Venture India BV. MREPL has signed a long-term Power Purchase Agreement (PPA) with Hubli Electricity Supply Company Limited (HESCOM) for 25 years. The project was commissioned on March 28, 2018.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	15.59	16.41
Total Income	15.75	16.63
EBITDA	12.98	15.34
PAT	-4.26	3.34
Total Debt	38.64	87.71
Tangible Net worth	30.32	33.66
EBITDA Margin (%)	83.30	93.50
PAT Margin (%)	-27.07	20.10
Overall Gearing Ratio (x)	1.27	2.61

Classification as per Infomerics' Standard

Financials of the Corporate Guarantor: OPG Power Generation Private Limited

(Rs. Crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	1454.03	1395.64
Total Income	1474.63	1412.48
EBITDA	258.07	238.11
PAT	24.16	34.27
Total Debt	725.53	525.80
Tangible Net worth	1084.21	1115.11
EBITDA Margin (%)	17.75	17.06
PAT Margin (%)	1.64	2.43
Overall Gearing Ratio (x)	0.67	0.47

**Classification as per Infomerics' Standard*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	81.64 *	IVR A+ [CE]; Stable Outlook	IVR A- [CE]; Stable Outlook (March 12, 2020)	IVR A- [CE]; Stable Outlook (February 14, 2019)	-

**Outstanding as on December 31, 2020*

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Ms. Harshita Didwania Tel: (033) 46022266 Email: hdidwania@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Term Loan	-	-	January, 2034	81.64 *	IVR A+ [CE]; Stable Outlook

**Outstanding as on December 31, 2020*