



Rating Rationale

June 23, 2023 | Mumbai

Powerica Limited

Rating outlook revised to 'Positive'; Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.992.87 Crore (Reduced from Rs.1458 Crore)
Long Term Rating	CRISIL AA-/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its rating outlook on the long-term bank facilities of Powerica Limited (Powerica) to **'Positive'** from 'Stable' while reaffirming the rating at **'CRISIL AA-'**. The rating on the short-term bank facilities has been reaffirmed at **'CRISIL A1+'**. CRISIL Ratings has also **withdrawn** its rating on Rs.465.13 crore bank facilities at the company request and 'No Objection Certificate' received from lenders.. The withdrawal is in line with CRISIL Ratings' withdrawal policy

The core diesel generator (DG) sets business where substantial de-growth was observed during the pandemic, witnessed a 36% on year jump in revenue in FY2023 following a 63% on year jump in FY2022. EBITDA also improved to Rs 131 crore from Rs 47 crore during previous year, as margins increased from 4.06% to 8.29%. The improvement in margins is reflected with increased demand from data centers along with ability to pass on the increased cost to customers due to overall high demand during fiscal 2023 on back of strong infrastructure demand. However, given the notified regulations from central pollution control board, the DG sets within 800 KW range must be compulsorily migrated from emission norms CPCB-2 to CPCB-4 from 1 January 2024 onwards. Further the manufacturing of the CPCB-2 compliant engines will be stopped from 30 June 2023 onwards. The CPCB-4 compliance engines would also be 20-30% costlier. Hence, Powerica's ability to maintain growth in topline on account of adequate availability of CPCB-2 norms engines till December 2023 and sustain the topline and margins during fiscal 24 post revision in prices will remain a key monitorable. To mitigate the availability issue for fiscal 2023, Powerica has done prebuying of CPCB-2 compliant engines in agreement with Cummins and has an order book of Rs 586 crore as of June 2023 for execution by December 2023 with further short execution period orders also expected during the fiscal.

In the wind business, plant load factors (PLFs) across the company's operational wind assets were impacted because of lower wind speeds in fiscal 2023, though on account of recently added Khambaliya capacity (50.6 MW) at the end of March 2022 resulted in overall EBITDA contribution at similar level. Overall, the PLFs continue to remain lower than P-90s,

however stabilisation of Khambaliya project in fiscal 2024 is expected to result in improvement in weighted average PLF going forward. Company does not intend to undertake any further wind projects over the medium term until expected IRRs improve.

Powerica has also reported meaningful revenue and margin contributions from Medium Speed Large Generator (MSLG) and Wind EPC segments which further provide diversification to topline and better margins than core DG business. The healthy EBITDA contribution from these two segments would also remain a key monitorable.

The financial risk profile is expected to remain healthy, driven by no incremental capex over medium term, large network, healthy cash accruals and strong liquidity. Powerica had liquid surplus of around Rs 277 crore as on March 31, 2023.

The ratings continue to reflect Powerica's strong market position and competitive advantage on account of being one of the three original equipment manufacturers (OEM) for Cummins; extensive experience of its promoters in the DG set industry along with diversification benefits it enjoys from wind power assets and MSLG and Wind EPC segments. These strengths are partially offset by cyclical nature in the DG set business, counterparty payment risks in wind power business and inherent risk of variability in wind speed and pattern.

Analytical Approach

For arriving at its ratings, CRISIL Ratings has combined the business and financial risk profiles of Powerica and all its subsidiaries, as they have strong business and financial linkages.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths

- **Established market position in the DG set industry:** Powerica has an established market position in the domestic DG set manufacturing business with presence of more than three decades. This is the core business segment of the company and accounts for over 66% of revenue and 35% of EBITDA in fiscal 2023 (77% revenue and 22% EBITDA in fiscal 22). The segment reported moderate de-growth during the pandemic in terms of both revenue and margins reported strong revival with 36% on year jump in revenue in FY2023 following a 63% on year jump in FY22. EBITDA also improved to Rs 131 crore from Rs 47 crore during previous year, as margins increased from 4.06% to 8.29%. The strong growth in FY2022 was driven by fixed asset capex across industries, demand for replacement of engines (after 15 years as per norms) and demand from Data Centers where stand-by power is required. Powerica is one of the three original equipment manufacturers (OEM) of DG sets for Cummins India Ltd and uses Cummins' engines and alternators for manufacturing DG sets.
- **Diversification benefits from wind power assets and is aided by Wind EPC and MSLG segments:** The company also enjoys diversification benefits from wind power business which provides additional cash flow and supports overall EBITDA of the company. Company has cumulative capacity of 305.95 MW spread across 13 wind assets setup primarily in Gujarat (11 assets, 278.15 MW) and Tamil Nadu (2 assets, 26.4 MW). While there was moderation in PLFs in fiscal 2023 vis-à-vis fiscal 2022, the same was solely on account of wind pattern as availability remained above 99%, however EBITDA remained stable due to additional capacity (Khambaliya asset- 50.6 MW) being operational from June 2022 onwards. This business accounts for over 9% of Powerica's total revenue and 40% of EBITDA in fiscal 2023.

In fiscal 2023 the newer segments: MSLG and wind EPC segments taken together contributed Rs 580 crore and Rs 72 crore to the topline and EBITDA respectively. Overall, non-core DG set revenue and margin stood at Rs 797 crore (34% of revenue) and Rs 223 crore (60% of EBITDA) respectively as against Rs 339 crore (23% of revenue) and Rs 161 crore (78% of EBITDA). Thus, Powerica's business is now fairly diversified as compared to previous fiscals.

- **Healthy financial risk profile:** The financial risk profile is backed by no major capex over medium term, moderate debt and large networth of around Rs 900 crores and strong liquidity. While total debt (including capex LC) stood at Rs 629 crore for FY2023 (Rs 747 crore for FY2022). As of June 2023, the company has further prepaid loans amounting to Rs 129 crores resulting in overall debt declining further to Rs 500 crores. Company has not undertaken any further wind projects leading to de-leveraging of the balance sheet in line with expectations. The wind projects have been prudently funded leading to strong debt service coverage ratios (DSCRs) while debt protection metrics are expected to further improve over the medium term, supported by improvement in profitability.

Weaknesses

- **Cyclicality in the DG set business:** Powerica's DG set business is cyclical in nature and is exposed to changes in the economic cycle. The company's revenue growth and profitability in this segment has remained muted over the past few years because of dip in demand from end-user industries, including infrastructure and real estate. However, post pandemic DG set business has reported strong turnaround on the back of fresh capex across industries and fresh demand from Data centers. The outlook is further supported by upwards of Rs 750 crore order book as of May 2023. Further, with transition to more expensive CPCB-4 compliant engines by January 2024, the company is expected to benefit from the remaining short supply of CPCB-2 engines till December 2023, however adequate availability of engines to meet the demand resulting in growth in topline and sustenance of margins would remain a key monitorable.
- **Counterparty payment risks in wind power and inherent risk of variability in wind speed & pattern:** Powerica is susceptible to counterparty payment risks arising from receivable exposure to distribution companies (discoms). This risk was high in the case of Tamil Nadu Electricity Board (TNEB) in Tamil Nadu, which has a relatively weaker financial profile. However, Powerica has signed a MOU for the sale of its TN based wind assets of 26.4 MW and the company will utilise the proceeds to prepay more of its term debt.

Powerica has outstanding dues of Rs 28 crores pertaining to receivables from July 2020 to March 2022 from TNEB. However, with Tamil Nadu subscribing to LPS scheme, Powerica has started receiving payments in the form of LPS instalments with 11 (Rs 6.4 crore) out of 48 (Rs 28 crore) instalments received as of June 2023. Also, over the last 12 months, the payments from TNEB are being received within 1-3 months from the date of raising invoice. As per terms of the MOU, Powerica will continue to realise the old dues from TNEB in LPS instalments. With the sale of TN based assets, the counterparty payment risk for TNEB going forward is for the old dues which are expected to be realised as per the LPS instalment schedule.

Further, since the company has high exposure (88% of tied up capacity) to Gujarat Urja Vikas Nigam Ltd (GUVNL) and Solar Energy Corporation of India (SECI) in Gujarat, which has a strong payment track record, the risk is mitigated to substantial extent.

The company is also exposed to inherent wind variability risk as wind power generation is highly vulnerable to seasonality and variance in wind intensity. Variation in wind speed and pattern could lead to a lower operating PLF, impacting average debt service coverage ratio of the wind assets. However, with the moderate amount of debt on the assets at Rs 1.87 crore/MW and strong networth and liquidity, Powerica's repayment capability remains strong.

Liquidity: Strong

Liquidity is backed by sizeable cash equivalent and liquid investments of Rs 277 crore and MF investments of Rs 110 crores, and unutilised WC bank limits of Rs 98 crore as on March 31, 2023. Available liquidity and expected annual cash accrual of Rs 200-230 crore in fiscals 2024 and 2025, should comfortably cover term debt obligation.

Outlook: Positive

Powerica's already strong business risk profile is expected to improve further over the medium term, driven by uptick in demand and profitability in the crore DG segment, with steady cash flows and growing contribution from its wind assets; and

diversification from wind EPC and MSLG segments.

Rating Sensitivity Factors

Upward factors

- Ability to maintain operating margins above 5-6% while maintaining topline in DG set business.
- Sustained track record of PLF performance closer to P90 levels for total wind capacity, along with faster-than-expected deleveraging

Downward factors

- Significant decline in revenue and reduction in EBITDA margins in the DG segment business to around 4% along with lack of substantial new orders in the MSLG & Wind EPC segments.
- Weakening of overall debt service coverage ratio (DSCR) in the wind business to below 1.5 times due to PLF's

About the Company

Established in 1984, Powerica is promoted by Mr Naresh Oberoi and Mr Kharati Ram Puri. The company is a GOEM for Cummins and uses the latter's engines and alternators (alternators are sourced from Cummins Generator Technologies India Ltd, a group company of Cummins) for manufacturing DG sets. It also sells DG sets of Hyundai Heavy Industries Co. Ltd., Korea.

Powerica entered the power generation business in fiscal 2008 by setting up six wind energy-based units of 800-kilowatt (kW) capacity each in Jamnagar, Gujarat. As on date, the company operates wind projects with a cumulative capacity of around 304.55 MW across Gujarat (278.15 MW) and Tamil Nadu (26.4 MW).

Key Financial Indicators

As on/for the period ended March 31	Unit	2022	2021	2020
Operating revenue	Rs.Crore	1,486	890	1,243
Profit after tax (PAT)	Rs.Crore	24	-16	62
PAT margin	%	1.60%	-1.8	5
Adjusted debt/adjusted networth*	Times	0.98	0.84	0.41
Adjusted interest coverage	Times	5.22	4.14	11.91

*Debt includes capex creditors

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity levels	Rating assigned with outlook
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NA	Bank Guarantee	NA	NA	NA	70	NA	CRISIL AA-/Positive
NA	Bank Guarantee	NA	NA	NA	60	NA	Withdrawn
NA	Cash Credit	NA	NA	NA	25	NA	CRISIL AA-/Positive
NA	Cash Credit	NA	NA	NA	3	NA	CRISIL AA-/Positive
NA	Letter of credit and bank guarantee	NA	NA	NA	75	NA	CRISIL A1+
NA	Letter of credit and bank guarantee#	NA	NA	NA	85	NA	CRISIL A1+
NA	Letter of credit and bank guarantee#	NA	NA	NA	166.5	NA	Withdrawn
NA	Letter of credit and bank guarantee##	NA	NA	NA	0.05	NA	CRISIL A1+
NA	Letter of credit and bank guarantee##	NA	NA	NA	44.95	NA	Withdrawn
NA	Letter of credit and bank guarantee@	NA	NA	NA	34.94	NA	Withdrawn
NA	Letter of credit and bank guarantee@	NA	NA	NA	0.06	NA	CRISIL A1+
NA	Proposed Letter of Credit & Bank Guarantee	NA	NA	NA	165	NA	CRISIL A1+
NA	Proposed Letter of Credit & Bank Guarantee	NA	NA	NA	44.65	NA	Withdrawn
NA	Standby Letter of Credit	NA	NA	NA	20	NA	CRISIL AA-/Positive
NA	Term Loan	NA	NA	Nov-29	115.34	NA	CRISIL AA-/Positive
NA	Term Loan	NA	NA	Nov-29	23.07	NA	Withdrawn
NA	Term Loan	NA	NA	Nov-29	218.13	NA	CRISIL AA-/Positive
NA	Term Loan	NA	NA	Nov-29	6.87	NA	Withdrawn
NA	Term Loan	NA	NA	Nov-29	201.29	NA	CRISIL AA-/Positive
NA	Term Loan	NA	NA	Nov-29	3.88	NA	Withdrawn
NA	Term Loan	NA	NA	Nov-29	80.27	NA	Withdrawn
NA	Working Capital Facility	NA	NA	NA	15	NA	CRISIL A1+

#Rs. 45 crore is interchangeable with fund-based facilities

##Rs. 15 crore is interchangeable with cash credit

@Fully interchangeable with fund-based facilities

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Primeair Windfarms Ltd	Full consolidation	Subsidiary
Paramount Windfarms Pvt Ltd	Full consolidation	Subsidiary
Vartaman Wind Energy Pvt Ltd	Full consolidation	Subsidiary
Soverign Windfarms Pvt Ltd	Full consolidation	Subsidiary
Windeon Windfarms Pvt Ltd	Full consolidation	Subsidiary
Vespower Windfarm Pvt Ltd	Full consolidation	Subsidiary
Airstream Windfarms Pvt Ltd	Full consolidation	Subsidiary
Energair Windfarms Pvt Ltd	Full consolidation	Subsidiary
Everest Industrial Gases Pvt Ltd	Full consolidation	Subsidiary
Powerica Power Systems (Fze)	Full consolidation	Subsidiary
Airpower Windfarm Pvt Ltd	Proportionate consolidation	Operational and financial linkages

Annexure - Rating History for last 3 Years

Current				2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	691.85	CRISIL AA-/Positive / CRISIL A1+		--	21-12-22	CRISIL A1+ / CRISIL AA-/Stable	12-10-21	CRISIL A1+ / CRISIL AA-/Stable	15-05-20	CRISIL AA-/Stable	CRISIL AA-/Stable
			--		--	05-04-22	CRISIL A1+ / CRISIL AA-/Stable	04-08-21	CRISIL A1+ / CRISIL AA-/Stable		--	--
			--		--		--	27-05-21	CRISIL AA-/Stable		--	--
Non-Fund Based Facilities	ST/LT	766.15	CRISIL AA-/Positive / CRISIL A1+		--	21-12-22	CRISIL A1+ / CRISIL AA-/Stable	12-10-21	CRISIL A1+ / CRISIL AA-/Stable	15-05-20	CRISIL A1+	CRISIL A1+
			--		--	05-04-22	CRISIL A1+ / CRISIL AA-/Stable	04-08-21	CRISIL A1+		--	--
			--		--		--	27-05-21	CRISIL A1+		--	--
Non Convertible Debentures	LT		--		--	05-04-22	Withdrawn	12-10-21	CRISIL AA-/Stable	15-05-20	CRISIL AA-/Stable	--
			--		--		--	04-08-21	CRISIL AA-/Stable		--	--
			--		--		--	27-05-21	CRISIL AA-/Stable		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	60	Axis Bank Limited	Withdrawn
Bank Guarantee	70	Kotak Mahindra Bank Limited	CRISIL AA-/Positive
Cash Credit	3	HDFC Bank Limited	CRISIL AA-/Positive
Cash Credit	25	Kotak Mahindra Bank Limited	CRISIL AA-/Positive
Letter of credit & Bank Guarantee[#]	85	Standard Chartered Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	75	HDFC Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee[@]	0.06	Citibank N. A.	CRISIL A1+

Letter of credit & Bank Guarantee ^{##}	0.05	BNP Paribas Bank	CRISIL A1+
Letter of credit & Bank Guarantee [#]	166.5	Standard Chartered Bank Limited	Withdrawn
Letter of credit & Bank Guarantee ^{##}	44.95	BNP Paribas Bank	Withdrawn
Letter of credit & Bank Guarantee [@]	34.94	Citibank N. A.	Withdrawn
Proposed Letter of Credit & Bank Guarantee	165	Not Applicable	CRISIL A1+
Proposed Letter of Credit & Bank Guarantee	44.65	Not Applicable	Withdrawn
Standby Letter of Credit	20	Kotak Mahindra Bank Limited	CRISIL AA-/Positive
Term Loan	115.34	Standard Chartered Bank Limited	CRISIL AA-/Positive
Term Loan	218.13	Axis Bank Limited	CRISIL AA-/Positive
Term Loan	201.29	HDFC Bank Limited	CRISIL AA-/Positive
Term Loan	80.27	National Investment and Infrastructure Fund Limited	Withdrawn
Term Loan	6.87	Axis Bank Limited	Withdrawn
Term Loan	3.88	HDFC Bank Limited	Withdrawn
Term Loan	23.07	Standard Chartered Bank Limited	Withdrawn
Working Capital Facility	15	Kotak Mahindra Bank Limited	CRISIL A1+

[#]Rs.45 crore is interchangeable with fund-based facilities

^{##}Rs.15 crore is interchangeable with cash credit

[@]Fully interchangeable with fund-based facilities

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Engineering Sector
Rating criteria for wind power projects

[CRISILs Criteria for rating short term debt](#)
[CRISILs Criteria for Consolidation](#)

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crsil.com	Manish Kumar Gupta Senior Director CRISIL Ratings Limited B: +91 124 672 2000 manish.gupta@crsil.com	Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crsil.com
Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crsil.com	Naveen Vaidyanathan Director CRISIL Ratings Limited B: +91 44 6656 3100 naveen.vaidyanathan@crsil.com	For Analytical queries: ratingsinvestordesk@crsil.com
Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crsil.com	Sukriti Dhusia Senior Rating Analyst CRISIL Ratings Limited B: +91 22 3342 3000 Sukriti.Dhusia@crsil.com	

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