

Rating Rationale

September 03, 2024 | Mumbai

Powerica Limited

Ratings reaffirmed at 'CRISIL AA/Stable/CRISIL A1+'; Rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.1262.87 Crore (Enhanced from Rs.992.87 Crore)
Long Term Rating	CRISIL AA/Stable (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 reaffirmed its 'CRISIL AA/Stable/CRISIL A1+' ratings on the bank facilities of Powerica Ltd (Powerica).

The ratings continue to reflect the strong market position and competitive advantage of the company on account of it being one of the three original equipment manufacturers (OEMs) for Cummins India Ltd (Cummins); extensive experience of its promoters in the diesel generator (DG) set industry along with diversification benefits it enjoys from the wind power assets, medium speed large generators (MSLG) and wind engineering, procurement and construction (EPC) segments. These strengths are partially offset by cyclicity in the DG set business and inherent risk of variability in wind speed and pattern.

In fiscal 2024, the mainstay DG segment has shown a healthy 16% growth while lower sales in MSLG and wind segment (wherein it sold two power assets) resulted in fall in operating income by ~7% on-year to Rs 2,211 crore. Growth in the DG segment in fiscal 2024 was driven by healthy demand from end-user industries with continued prebuying of older generation CPCB II compliant engines as well as sales of new generation CPCB IV+ compliant engines that are 20-30% costlier, sales of which has become mandatory from July 01, 2024. Continued healthy demand and order book of ~Rs 700 crores as of August 2024 provide revenue visibility in the near term. Operating income is expected to grow 5-10% over the medium term with support from all segments, backed by a strong competitive position and healthy demand, especially from the data centre industry.

The profitability improved in fiscal 2024, as reflected in earnings before interest, tax, depreciation and amortisation (Ebitda) of Rs 368 crore at 16.6% margin; against Rs 358 crore at 15.0% margin previous fiscal. The improvement in Ebitda margin was primarily driven by the DG and wind businesses (comprising wind power and wind EPC) wherein it improved to 10.1% and 49.5% from 8.7% and 41.4%, respectively. The improvement in DG was driven by higher realisation as well as improved fixed cost absorption while that in the wind segment was driven by plant load factors (PLFs) across operational wind assets, albeit it remains below P-90 levels. Healthy margin is expected to be sustained over the medium term, resulting in improving cash accrual.

Cash flows in fiscal 2024 were supported by healthy accrual as well as proceeds from the sale of two wind assets totaling 26.4 megawatt (MW) in Tamil Nadu; which was used to repay debt. Gross debt (including those recognised as creditor for capital goods) reduced to Rs 386 crore as of March 31, 2024 from Rs 699 crore as of March 31, 2023, thereby strengthening financial risk profile. The company plans to construct two 50 MW wind assets in Gujarat, capital expenditure (capex) of which is budgeted at Rs 400 crore each, with about 70% funding through debt and the rest from internal accruals. The first of these wind assets is expected to be commissioned from fiscal 2026. The company has signed the power purchase agreement (PPA) and received bank loan sanction for the same. Timely commissioning and achievement of PLFs closer to P-90 levels will be monitorable.

The financial risk profile is expected to be remain healthy over the medium term, supported by strong internal accrual, sizeable network, robust debt protection metrics and comfortable liquidity. While the company will be contracting debt to fund the capex to set up 100 MW of wind capacity, the net debt profile is expected to remain comfortable because of healthy cash accrual and limited dividend outflow.

Analytical Approach

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 a strong market position in the domestic DG set manufacturing business with presence of more than three decades. As one of the three OEMs for DG sets for Cummins, Powerica utilises Cummins' engines and alternators. This segment constitutes the company's core business, contributing over 83% to the revenue and 50% to Ebitda in fiscal 2024. With a 16% on-year revenue growth and an Ebitda margin of 10.1% during the fiscal, driven by prebuying of CPCB II engines coupled with sale of costlier, new generation CPCB IV+ compliant engines, the segment has shown robust performance. Mandatory sale of CPCB IV+ engines from July 2024, coupled with the ability to pass on increased costs to customers and sale of Retrofit Emission Control Device (RECD kit) used for reducing air pollution from old DG Sets as mandated by National Green Tribunal, should support growth over the medium term.
- **Diversification benefits from wind power assets and aided by wind EPC and MSLG segments:** Diversification into the wind power business provides additional cash flow and supports overall Ebitda. The company has cumulative capacity of 279.55 MW spread across 11 wind assets in Gujarat. The company sold two wind assets having total capacity of 26.4 MW in Tamil Nadu. The weighted average PLFs also improved during fiscal 2024, leading to enhanced Ebitda margin. The wind business in totality accounted for ~13% of the total revenue and 39% of Ebitda during fiscal 2024. The company continues to receive the outstanding dues from the two Tamil Nadu wind assets in a timely manner, as indicated under the LPS scheme. It intends to construct two wind assets of 50 MW each costing a total of Rs 800 crore, which will be ~70% funded through debt and the remaining through internal accrual, expected to be commissioned from fiscal 2026. The company has signed the PPA and received sanction for the first 50 MW asset. Timely commissioning and achievement of PLFs closer to P-90 levels will be monitorable.

The contribution from wind EPC and MSLG segments depends solely on the order book and timely execution. While the operating income from these businesses reduced from last fiscal's levels, the company continues to have a healthy order pipeline that will be converted and executed over the medium term.

- **Strong financial risk profile:** The financial risk profile is backed by steady cash accruals of about Rs 300 crore with capex in the medium term of ~Rs 800 crore to be funded 70% through debt and remaining through internal accruals. Networth was large at Rs 904 crore as on March 31, 2024, along with strong liquidity. Gross debt reduced to Rs 386 crore as on March 31, 2024 from Rs 699 crore, last fiscal as the company utilised higher accrual and proceeds from the sale of two wind assets to prepay the term debt. The existing wind projects have been prudently funded, leading to strong debt service coverage ratios (DSCRs) while gearing is expected to remain at 0.4-0.6 time over the medium term even after debt funding of capex.

Weaknesses:

- **Cyclicality in the DG set business:** The company's DG set business is cyclical and is exposed to changes in the economic cycle. After the pandemic, the DG set business reported a strong turnaround on the back of fresh capex across industries and new demand from data centres. The outlook is further supported by order book upwards of Rs 700 crore as of August 2024. Furthermore, with transition to more expensive CPCB-IV+ compliant engines from July 01, 2024, the company is expected to benefit from the higher pricing and strong market standing of Cummins engines in the industry.
- **Counterparty payment risks in wind power and inherent risk of variability in wind speed and pattern:** Powerica is susceptible to counterparty payment risks arising from receivable exposure to distribution companies. This risk was high in the case of Tamil Nadu Electricity Board (TNEB), which had a relatively weaker financial risk profile. However, in fiscal 2024, Powerica has sold 2 wind assets of 26.4 MW in Tamil Nadu. As on date, the company has exposure to Gujarat Urja Vikas Nigam Ltd (82% capacity) and Solar Energy Corporation of India (18% capacity), which have a strong payment track record.

Powerica has outstanding dues of Rs 16 crore as of March 31, 2024, pertaining to receivables from July 2020 to March 2022 from TNEB. However, with Tamil Nadu subscribing to LPS scheme, payment commenced from August 2022. All dues from Tamil Nadu wind assets are being received on time till date and interest at a rate of 6% is accruing on previous dues.

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 DSCR of the wind assets. However, with healthy cash accrual and liquidity, the company's repayment capability is expected to remain strong even though debt is expected to rise to ~Rs 2 crore per MW by March 2027.

Liquidity: Strong

Liquidity is backed by sizeable cash equivalent and liquid investments of Rs 364 crore as on March 31, 2024, and unutilised fund-based working capital bank limit of Rs 98 crore. Available liquidity and expected annual cash accrual of about Rs 300 crore should comfortably cover the annual term debt obligation of Rs 50-60 crore.

Outlook: Stable

The business risk profile of Powerica will remain strong over the medium term, driven by steady demand and profitability in the core DG segment, with steady cash flows and growing contribution from its wind assets; and diversification to wind EPC and MSLG segments.

Rating sensitivity factors

Upward factors

- Double-digit increase in the scale of operations in the DG set business on a sustained basis, and overall operating margin of 16-18% leading to higher-than-expected cash accrual

- Sustained track record of PLF performance above P90 levels for total wind capacity, along with faster-than-expected deleveraging

Downward factors

- Significant decline in revenue and reduction in Ebitda margin in the DG segment weakening the overall margin below 12% on a sustained basis
- Larger-than-expected capex adversely impacting liquidity and financial risk profile

About the Company

Established in 1984, Powerica is promoted by Mr Naresh Oberoi and Mr Kharati Ram Puri. Currently fully owned by the Oberoi family, the company is a Generator OEM 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 capacity each in Jamnagar, Gujarat. As on date, the company operates wind projects with a cumulative capacity of around 279.55 MW across Gujarat.

Key Financial Indicators

As on/for the period ended March 31	Unit	2024	2023
Operating revenue	Rs.Crore	2211	2379
Profit after tax (PAT)	Rs.Crore	229	106
PAT margin	%	10.3%	4.5%
Adjusted debt/adjusted network*	Times	0.44	0.89
Adjusted interest coverage	Times	11.73	6.90

*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.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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 Outstanding with Outlook
NA	Cash Credit	NA	NA	NA	28.00	NA	CRISIL AA/Stable
NA	Working Capital Facility	NA	NA	NA	60.00	NA	CRISIL A1+
NA	Letter of credit & Bank Guarantee [#]	NA	NA	NA	130.00	NA	CRISIL A1+
NA	Letter of credit & Bank Guarantee	NA	NA	NA	00.10	NA	CRISIL A1+
NA	Letter of credit & Bank Guarantee	NA	NA	NA	100.00	NA	CRISIL A1+
NA	Bank Guarantee	NA	NA	NA	70.00	NA	CRISIL AA/Stable
NA	Standby Letter of Credit	NA	NA	NA	20.00	NA	CRISIL AA/Stable
NA	Proposed Letter of Credit & Bank Guarantee	NA	NA	NA	188.58	NA	CRISIL A1+
NA	Term Loan	NA	NA	30-Nov-29	218.13	NA	CRISIL AA/Stable
NA	Term Loan	NA	NA	30-Nov-29	178.06	NA	CRISIL AA/Stable
NA	Term Loan	NA	NA	31-Dec-38	270.00	NA	CRISIL AA/Stable

- Rs 45 crore is interchangeable with fund-based facilities

Annexure - List of Entities Consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Paramount Windfarms Pvt Ltd	Full consolidation	Subsidiary
Vartaman Wind Energy Pvt Ltd	Full consolidation	Subsidiary
Powerica Renewable Infra Pvt Ltd**	Full consolidation	Subsidiary
Powerica Power Systems (Fze)	Full consolidation	Subsidiary

*As on December 31, 2023, the company has sold off Airpower Windfarms Pvt Ltd

#Name changed from Airstream Windfarms Pvt Ltd on November 01, 2023

Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	754.19	CRISIL A1+ / CRISIL AA/Stable	21-05-24	CRISIL A1+ / CRISIL AA/Stable	23-06-23	CRISIL AA-/Positive / CRISIL A1+	21-12-22	CRISIL A1+ / CRISIL AA-/Stable	12-10-21	CRISIL A1+ / 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	508.68	CRISIL A1+ / CRISIL AA/Stable	21-05-24	CRISIL A1+ / CRISIL AA/Stable	23-06-23	CRISIL AA-/Positive / CRISIL A1+	21-12-22	CRISIL A1+ / CRISIL AA-/Stable	12-10-21	CRISIL A1+ / CRISIL AA-/Stable	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	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	70	Kotak Mahindra Bank Limited	CRISIL AA/Stable
Cash Credit	25	Kotak Mahindra Bank Limited	CRISIL AA/Stable
Cash Credit	3	HDFC Bank Limited	CRISIL AA/Stable
Letter of credit & Bank Guarantee	100	HDFC Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	0.1	Citibank N. A.	CRISIL A1+
Letter of credit & Bank Guarantee ^{&}	130	Standard Chartered Bank Limited	CRISIL A1+
Proposed Letter of Credit & Bank Guarantee	188.58	Not Applicable	CRISIL A1+
Standby Letter of Credit	20	Kotak Mahindra Bank Limited	CRISIL AA/Stable
Term Loan	218.13	Axis Bank Limited	CRISIL AA/Stable
Term Loan	178.06	HDFC Bank Limited	CRISIL AA/Stable
Term Loan	270	Axis Bank Limited	CRISIL AA/Stable
Working Capital Facility	45	Standard Chartered Bank Limited	CRISIL A1+

Working Capital Facility	15	Kotak Mahindra Bank Limited	CRISIL A1+
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& - Rs 45 crore is 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

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