July 21, 2022

Gokak Power & Energy Limited: Rating reaffirmed to [ICRA]D

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	86.00	-	-
Unallocated	-	86.00	[ICRA]D; reaffirmed
Total	**86.00**	**86.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the rating assigned to Gokak Power & Energy Limited (GPEL) considers the delays in debt servicing by the company till June 2022. This can be attributed to the inadequate cash flows from operations in relation to the debt servicing obligations, owing to subdued generation by GPEL's hydropower project and the modest credit profile of the customers. While the rated term loan facility was backed by an unconditional, irrevocable and revolving debt service reserve account (DSRA; six months of ensuing debt obligations) undertaking by Shapoorji Pallonji and Company Private Limited (SPCPL), the DSRA mechanism was not invoked in a timely manner, leading to delays in debt servicing obligations since March 2021. Nonetheless, ICRA takes note of the full repayment of the term loan facility by GPEL on June 29, 2022 and the rating would be monitored in line with ICRA's policy on default recognition.

Key rating drivers and their description

Credit challenges

Delays in servicing – There have been delays in the servicing of the debt obligations by Gokak Power & Energy Limited since March 2021. Moreover, the DSRA mechanism (backed by undertaking from SPCPL) was not invoked in a timely manner, leading to delays in debt servicing obligations by GPEL. However, the company has fully repaid the term loan facility on June 29, 2022 with the support of insurance claims and internal accruals through the sale of power and fixed deposits against the term loan facility.

Liquidity position: Stretched

The liquidity profile of GPEL is constrained by subdued profitability owing to the sub optimal utilisation of its hydropower capacity and high leverage level.

Rating Sensitivities

Positive factors – The rating could be upgraded if the company is able to service its debt obligations in a timely manner, on a sustained basis, in line with ICRA's policy.

Negative factors – Not applicable.

Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Policy on default recognition
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the Company

GPEL is a subsidiary of Gokak Textiles Limited (GTL). GTL holds 51% equity stake and Shapoorji Pallonji and Infrastructure Capital Company Limited (SPICCL) holds the remaining 49%. GPEL was incorporated in January 2012 for the generation, transmission, distribution and trading of hydropower and other renewable and non-renewable sources of energy. On September 20, 2012, the hydropower business of Gokak Textiles Limited (10.8 MW aggregate capacity) was transferred to GPEL by way of slump sale for Rs. 120 crore. The power plants are situated in Karnataka, at the foothills of Sahyadri hills on river Ghataprabha, 70 km from Belgaum City and 6 km away from Gokak Town. The 10.8-MW hydropower capacity is distributed into three units viz. Old Power House that has a capacity of 3.5 MW, D.J. Madan Power House of 2.8 MW capacity and the new unit with 4.5 MW capacity. The power generation from all the three hydropower units is primarily supplied to Gokak Textiles Limited for in-house consumption and the surplus power is sold to Hubli Electricity Supply Company Limited (HESCOM) and traded in the open market. GPEL has a firm PPA with GTL for the sale of electricity for 20 years.

Key financial indicators (audited)

GPEL Standalone	FY2021	FY2022
Operating income (Rs. crore)	11.0	12.2
PAT (Rs. crore)	-3.7	-1.4
OPBDIT/OI	69.8%	72.1%
PAT/OI	-33.1%	-11.5%
Total outside liabilities/Tangible net worth (times)	4.1	4.1
Total debt/OPBDIT (times)	11.3	9.3
Interest coverage (times)	1.0	1.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

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 Jun 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					Jul 21, 2022	Apr 12, 2021	Oct 14, 2020	Dec 09, 2019	May 28, 2019
1	Unallocated	Long-term	86.0	0.00	**[ICRA]D**	**-**	**-**	**-**	**-**
2	Term Loan	Long-term	-	-	**-**	**[ICRA]D**	**[ICRA] BB- (CE) @**	**[ICRA] BBB- (CE) (Negative)**	**[ICRA] BBB (SO) &**

Complexity level of the rated instruments

Instrument	Complexity Indicator
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 are available on ICRA's website: www.icra.in