ICRA Lanka reaffirms the ratings of Vidullanka PLC

June 10, 2022

Instrument	Current Rated Amount (LKR Mn)	Rating Action
Issuer Rating	-	[SL]A- (Stable) reaffirmed
Commercial Paper Programme -1	100.00	[SL]A2+ reaffirmed
Commercial Paper Programme -2	100.00	[SL]A2+ reaffirmed

Rating action

ICRA Lanka Limited has reaffirmed the Issuer rating of [SL]A- (pronounced SL A minus) with Stable outlook, assigned for Vidullanka PLC's ("VLL"/ "the Company"). ICRA Lanka has also reaffirmed the short term rating of [SL]A2+ (pronounced [SL] A two plus[1]) assigned to two of LKR 100.00 Mn each commercial paper programmes of the Company.

Rationale

The assigned rating considers positively the experience of the management team and the Company's stable operational track record in the power sector, which has permitted the Company to continue healthy operational performance during FY2021 and 9MFY2022. During 9MFY2021, most of the domestic power plants of the Company have performed well amidst the favourable weather conditions that prevailed in Sri Lanka. The Company has diversified its operations through its investments in Muvumbe and Bukinda SHPPs, thereby reducing to some extent its reliance on run-of-the-river MHPPs in Sri Lanka which are exposed to vagaries of the monsoon. Going forward, VLL's two overseas plants are expected to be the key revenue contributors, with approximately half of the total power generation of the Group coming from these plants. ICRA Lanka would closely monitor the performance of the projects in the medium term. Moreover, VLL's investment in the Biomass energy project-Dehiattakandiya Dendro Power Plant (with 3.3 MW) and Rooftop solar projects have provided further diversification to its project portfolio. The ratings also draw comfort from VLL's healthy financial profile, which is characterized by comfortable profitability (RoCE over 25%), healthy capital structure (with gearing of 0.77x as of Dec 31, 2021) and adequate coverage metrics.

ICRA Lanka has noted the Group's increased working capital intensity, which is characterized by higher trade receivable levels during FY2021 and 9MFY2022. The CEB's payment cycle has stretched in 9MFY2021 from 184 days to 210 days, as a result of the weakening financial profile of the state electricity provider. Nevertheless, with the government backing for CEB, the overall counterparty credit risk is expected to be limited in the long term. Given the strong revenue contribution envisaged from the overseas plants, VLL's ability to manage such regulatory risk in the future would be a key monitorable. The rating has also factored the Group's capex projects, which are currently under various construction both in Sri Lanka and overseas and the ability of the management to successfully commission these projects as envisaged remains to be reviewed in the future.

Outlook: Stable

The Stable Outlook reflects ICRA Lanka's expectations that VLL would benefit from its diversified project portfolio going forward. The rating would be upgraded if the coverage, leverage and working capital indicators improve further in the medium term.

---

[1] *For complete rating scale and definitions please refer to ICRA Lanka's Website www.icralanka.com or other ICRA Rating Publications*

Credit strengths

Regional Diversification through overseas investments; Initially, the Company's operations were concentrated in the Southern part of the country, which is exposed to South-West monsoon. Subsequently, it diversified to the Eastern part of the Country through Rideepana and Udawela MHPPs. Apart from the geographic diversification within the country, the Group has expanded its operations to Uganda, with the commissioning of Muvumbe SHPP in Mar-17 and Bukinda SHHPs in Jul-20, where currently there is a total installed capacity of 13MW (35% of the total capacity). The risks arising from the dependence of the Group on a single buyer, CEB, have been mitigated to a great extent with 38% of the revenue being sourced from overseas as in 9MFY22. In addition, the Group has been benefitting from the depreciation of the rupee against the dollar with the revenue contribution from the overseas plants increasing at no incremental cost. The revenue from the overseas plants increased by 76% during 9MFY22 driven by the higher PLF recorded and the depreciation of the local currency. Going forward, ICRA Lanka envisages 45%-50% revenue contribution to the Group from the investments in Uganda. The Group project pipeline includes the flagship project of 50MW solar power plant in Malawi, which is one of the biggest ventures that Vidullanka is a member of.

Comfortable financial profile characterized by healthy profitability; VLL's financial profile is characterized by comfortable profitability, healthy capital structure, and coverage metrics. ICRA Lanka notes improvements in Group performance with the increase in revenue due to the higher PLF recorded during the period and the improved contribution from the overseas plants. The Group's average OPBITDA margin (for the past 4 years) remains at 68.6% with the 9MFY22 OPBITDA margin being 67.7%. Similarly, the Group also has recorded healthy PAT margin levels over the past 4 years ~37% on average, and the same has increased to 50% during 9MFY22. The coverage and capitalization metrics saw a significant improvement during 9MFY22 where gearing improved from 1.06x in FY21 to 0.77x in 9MFY22 and the coverage ratio improved from 3.56x in FY21 to 6.27x in 9MFY22. However, the overall profitability and coverage indicators could somewhat moderate in the short to medium term, due to the cyclicality of the rain-fall patterns.

Experienced management team; good operational track record with projects operational since 2001; The Group currently operates nine Mini-Hydro Power Plants, five Rooftop Solar power plants, one ground mounted Solar power plant and one Dendro Plant in Sri Lanka with a total local power generation capacity of 25 MW. The two overseas Small hydro projects in Uganda, have a total generation capacity of 13 MW. Initially, the Company expanded and grown its business by undertaking several mini-hydro projects. Most of the local projects were undertaken through separate legal entities due to tax and other regulatory requirements in Sri Lanka. However, the business is managed as one operation. The Company has been efficiently managing its operations through a prudent selection of locations and strong control over operations and maintenance. The Group has also developed engineering expertise in the hydropower space over the past several years. which has enabled the Company to respond quickly to outages at their power plants and restore normal service with quick turnaround times.

Credit challenges

Declining tariffs for the local power plants; the majority of the power plants are operating under the 3 tier tariff structure, which offers different tariff rates depending on the tier that the power plant falls into (the first tier offers the highest tariff rate, and as the plant progresses into the next two tires the tariff rate declines). The operating and maintenance cost element, which is used in determining the tariff rate, is linked to the movement of the USD/LKR exchange rate and the Colombo Consumer Price Index. While the tariff rate is revised periodically, as the cost element also increases in absolute terms, the net impact is insignificant. On average, the plants have been in operation for 10 years and currently, most of the Group's power plants fall into the second tier. According to the agreed-upon tariff rates in the PPAs there is a visible declining trend in the revenue driver, which is an industry risk. Therefore, the operatings need to add incremental capacity to drive sustainable revenue growth.

Increasing working capital intensity with delayed payments from local authorities; Due to the current challenging macro conditions, there have been significant delays in the payments from the local authorities, where the group's debtor days increased to 210 days in 9MFY22 from 184 days in FY21. However, as of Dec-21, only 50% of the Group's total receivables are represented by the CEB. As opposed to many of the peer companies, the Group's limited exposure to this industry risk has positioned them better to absorb any further delays by the local authorities.

Foreign currency risk of the USD denominated borrowings; Although there is no significant risk in terms of currency depreciation, the Group does have some exposure to forex borrowings. As of Dec-21 the group had foreign currency denominated borrowings of USD 4.3Mn, obtained for investments in the overseas projects.However, as the USD borrowings are held by the overseas companies and is serviced at the relevant company level, forex risk of the facilities is minimized and the net exposure is positive.

Analytical approach: For arriving at the ratings, ICRA Lanka has applied its rating methodologies as indicated below.
Links to applicable criteria: *https://www.icralanka.com/corporate-rating-methodology*

About the Company:

Vidullanka PLC was incorporated in 1997 as a Board of Investment (BOI) venture. VLL constructs, operates and maintains MHPPs. At present, it operates eleven hydro power projects, six solar projects and one biomass (dendro) power project with a total capacity of ~38MW. VLL operates ten Power plants on its own and through subsidiaries, and six other plants through joint ventures/Associates. Vidul Engineering Ltd, a subsidiary of VLL is into designing of its plants and rendering of energy consultancy services to in-house operations and to third parties. VLL commenced the power generation of its first foreign power project, Muvumbe SHPP in Uganda in March 2017. The plant capacity of Muvumbe SHPP was designed at 6.5 MW. The second SHPP was commissioned in Uganda with a designed capacity of 6.5 MW on July 31, 2020. The Company diversified in to solar power by commissioning two rooftop solar projects in Dec-20 and Apr-21 with a designed capacity of 0.52 MW and 0.24 MW respectively

Key financial indicators (Consolidated)

Revenue and profitability indicators-Figs are in LKR Mn (Consolidated Level)	FY19	FY20	FY21	9MFY22*
Operating Income	1,282.0	1,443.3	1,797.1	2,072.2
OPBITDA	888.0	945.0	1,110.0	1,402.4
PAT	527.4	361.7	595.0	850.5
ROCE (%)	17.40%	15.86%	15.6%	23.5%
NWC / OI (%)	27.72%	21.36%	32.2%	36.5%
Total Debt	2,672.8	3,397.8	3,846.8	3,499.3
Networth	2,753.4	3,000.8	3,644.9	4,532.5
Gearing (x)	0.97	1.13	1.06	0.77
OPBDITA/Interest & Finance Charges(x)	3.01	2.95	3.56	6.27
Total Debt/OPBDITA (x)	3.01	3.60	3.47	1.87

*Unaudited

Rating history for last four years

		Current Rating (2022)				Chronology of Rating History for the past 4 years			
	Instrument	Type	Amount Rated (LKR Mn)	Amount outstanding (LKR Mn)	Date & Rating June 2022	Date & Rating June 2021	Date & Rating Mar 2020	Date & Rating Jan 2019	Date & Rating Jan 2018
1	Issuer Rating (COR/ER/15/07)	-	-	-	**[SL]A- (Stable)**	**[SL]A- (Stable)**	**[SL]A- (Stable)**	**[SL]A- (Stable)**	**[SL]A- (Stable)**
2	Commercial Paper Programme -1	Short Term	100.00	100.00	**[SL]A2+**	**[SL]A2+**	**[SL]A2+**	**[SL]A2+**	**[SL]A2+**
3	Commercial Paper Programme -2	Short Term	100.00	100.00	**[SL]A2+**	**[SL]A2+**	**[SL]A2+**		

ICRA LANKA

ICRA Lanka Limited (ICRA Lanka) is a Credit Rating Agency licensed by the Securities and Exchange Commission of Sri Lanka (SEC). ICRA Lanka is a fully owned subsidiary of ICRA Limited ("ICRA") of India. The ultimate parent company of the international credit rating agency, Moody's Investors Service, is the indirect majority shareholder of ICRA.

CORPORATE OFFICE
Level 10, East Tower, World Trade Center, Colombo 01, Sri Lanka
Tel: +94 11 4339907; Fax: +94 11 2333307
Email: info@icralanka.com; Website: www.icralanka.com

ICRA Lanka ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA Lanka ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA Lanka rating is a symbolic indicator of ICRA Lanka's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icralanka.com or contact ICRA Lanka's office for the latest information on the outstanding ICRA Lanka ratings.

All information contained herein has been obtained by ICRA Lanka from sources believed by it to be accurate and reliable, including the rated issuer. ICRA Lanka however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Lanka in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information.

ICRA Lanka does not take any responsibility for accuracy of material/documents prepared or published by other parties based on this document. All ICRA Lanka official rating rationales are prepared in English and external parties may present or publish translated versions of the same. Readers are henceforth advised to refer to the ICRA Lanka's official rating rationale in the event of any inconsistency found in such documents.

ICRA Lanka or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA Lanka shall not be liable for any losses incurred by users from any use of this publication or its contents.

Analysts

Gangulee Weerakoon
+94-774781591
gangulee@icralanka.com

Nithya Debaddi
+91-9908912213
nithya.debaddi@icraindia.com

Contacts

Rasanga Weliwatte
Head of Ratings
+94-773553564
rasanga@icralanka.com

Access our ratings at
https://www.icralanka.com/ratings/

Follow us on

IcraLanka

icra-lanka