Prayagraj Water Private Limited (Revised)

April 01, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long-term Bank Facilities	179.75	**'CARE A- (CE); Stable' [Single A Minus (Credit Enhancement); Outlook: Stable]**	Reaffirmed
Total facilities	**179.75 (Rupees One Hundred Seventy Nine Crore and Seventy Five Lakh Only)**		

Details of facilities in Annexure-1

Unsupported Rating [2]	**CARE BBB+ (Triple B Plus) (Reaffirmed)**

Detailed Rationale and Key Rating Drivers

The rating assigned to the bank facilities of Prayagraj Water Private Limited (PWPL) derives credit enhancement from sponsor support undertaking of Adani Enterprises Limited (AEL; rated CARE A; Under credit watch with Developing Implications/CARE A1) to fund shortfall in Debt Service Reserve Account (DSRA) and replenish the same. AEL has also extended undertakings for funding liquidated damages and excess operating costs over the pre-determined levels among others.

The reaffirmation of rating assigned to the bank facilities of PWPL continues to take into consideration the favorable clauses of hybrid annuity model (HAM) for the development, rehabilitation, restoration and operations of sewage treatment plant (STP) awarded by National Mission for Clean Ganga (NMCG), Government of India undertaking under prestigious 'Namami Gange Program'. The model has assured cash flow in the form of inflation indexed construction payment during construction phase and quarterly payout of inflation indexed capex annuity, interest on reducing balance of capex annuity, inflation indexed O&M annuity and power charges reimbursement subject to cap on guaranteed energy units consumption during operational phase. Rating also factors demonstrated execution capability of Adani group, wide experience of the sponsor; AEL in infrastructure sector as well as technology support from Organica Water Private Limited (OWPL) and relatively shorter construction period for rehabilitation and restoration of existing six STPs.

The rating also favorably factors in the well-defined proposed structured waterfall payment water fall mechanism leading to ring fencing of cash flows of under construction and operational packages, restricted payment covenants providing cash flow cushion, proposed DSRA mechanism, and additionally the sponsor support undertaking for funding of liquidated damages and excess operating costs over the predetermined levels among others as the part of sanction terms. Further, rating also takes the note of receipt of inflation indexed construction payment for all the three packages and achievement of commercial operations date (COD) for package-III rehabilitation STPs during November 2020.

The above rating strengths are however, tempered by inherent construction risk, and high operational risk on account of power intensive operations, performance risk related to maintenance of requisite discharge standard for the treated effluent and maintenance of 100% availability of all the facilities at all the times post achievement of commercial operations date (COD). Interest rate risk and lack of operational track record of similar projects under the same model further constrains the rating. Nevertheless, sponsor's undertaking to bear all kind of liquidated damages, if any mitigate the operational risk to a large extent.

Rating Sensitivities:

Positive Factors:

- Achievement of COD within envisaged time as well as cost parameters
- Maintaining of requisite performance w.r.t. effluent discharge standard while controlling O&M expense including containment of power consumption charges up to bid/guaranteed level
- Track record of timely receipt of annuities for all the three packages

Negative Factors:

- Delay in project completion leading to levy of penalties by NMCG

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*
[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019*

- Unprecedented increase in the operating expenses there by moderating debt coverage indicators
- Non-adherence to stipulated payment structure mechanism

Detailed description of key rating drivers

Key Rating Strengths:

Favorable clauses of concession agreement providing stable cash flow during construction and operational period

Concession Agreement (CA) includes favorable clauses such as: lower sponsor contribution during construction period considering 40% construction payment from NMCG and availability of interest free mobilization advances, permitted inflation on the project cost, quarterly annuity payments and assured revenue profile in the form of construction annuity, interest on reducing balance of construction annuity, inflation indexed O&M annuity and power reimbursement subject to cap on power charges based on guaranteed energy units consumption. Moreover, interest annuity is payable at SBI MCLR plus 300 basis points (effectively 10% per annum at present) which is favorable from credit perspective. In addition, maintenance of minimum escrow balance of two milestone payments during construction phase and two years of annuity payments in operational phase by NMCG is expected to mitigate the risk related to delay in the payment from counterparty to an extent. Feature of deemed acceptance of invoices raised within 10 days from the date of the invoice (in case of no dispute by Uttar Pradesh Jal Nigam, project implementation and monitoring agency) is envisaged to speed up the payment receipts there by improving its cash flow. Further, CA also allows selling of sludge and treated effluent to third party leading to additional revenue stream for PWPL.

Prestigious project of GoI coupled with non-lapsable assistance by Central Government to NMCG

The 'Namami Gange Programme' was approved on May 13th 2015, as a comprehensive program to rejuvenate river Ganga and its tributaries under one umbrella project. NMCG is the designated body for pollution abatement and rejuvenation of river Ganga. A total of Rs.20,000 crore (non-lapsable budget) has been allocated for this project to be spent over the five years from 2015-2020. This includes funds allocated for on-going projects to clean river Ganga and new initiatives. Apart from fund assistance by Central Government, NMCG also enjoys funding from multilateral agencies like 'The World Bank' and 'The Japan International Co-operation Agency'. In light of water scarcity and mission to clean river Ganga, project is expected to be of strategic importance for Government of India.

Wide experience of AEL in various infrastructure space, demonstrated execution capability of the Adani group and good financial flexibility

PWPL derives strength from the parentage of AEL, being its step down subsidiary. AEL, on a standalone basis, has mainly coal trading, power trading and coal Mine Developer and Operator (MDO) businesses, whereas, Adani Group as a whole has evolved into a diversified conglomerate and is engaged in various businesses across a range of sectors, primarily energy (including coal mining), power generation and transmission, port operations, logistics, oil and gas exploration, city gas distribution and public transport infrastructure. The Group is also involved in agro-processing (including sale of branded edible oil) & storage and commodities trading. The parentage of AEL provides the company with the required financial flexibility and technical/managerial resources for its operations. Further, demonstrated project execution capability of AEL is also reflected from timely completion of large sized power generation, transmission projects, solar generation, city gas distribution (CGD), solar module manufacturing, MDO projects, port implementation and operations and logistics.

Technology support from OWPL

OWPL, the JV partner, has expertise in the water treatment space with an experience of over two decades in the industry. The parent company of OWPL, headquartered in USA, is a global provider of innovative solutions for the treatment and recycling of wastewater. OWPL portfolio of solutions for wastewater treatment covers the full value chain, from Design to Facility construction and Operations Management. Further, OWPL has expertise in the Fixed-Bed Biofilm Activated Sludge (FBBAS) process which is to be used in PWPL. The technology is the extension of Activated Sludge Process (ASP) technology.

Well defined proposed structure payment water fall mechanism and sponsor support undertakings

The waterfall mechanism stipulates creation of two separate escrow account-construction escrow account and operational escrow account. Further, annuities proceeds of existing six STPs post completion of their rehabilitation and restoration shall be deposited into operational escrow account and shall not be available for funding construction of three new STPs. Furthermore, incremental payments received over above total project cost of Rs.399.50 crore due to permitted inflation during construction phase shall also be retained in the escrow account till achievement of COD, creation of DSRA and other reserves, if required, repayment of first installment and compliance of minimum DSCR of 1.15 times. These restricted payment covenants are expected to help in meeting initial working capital requirement and built up of one quarter DSRA from project cash flows. Moreover, as per the proposed terms, the sponsor shall provide undertaking to bring in funds for first three months of debt servicing requirements in case of shortfall in cash flows from operations of existing STPs amidst ongoing construction of new STPs. Further, sponsor shall also bring funds in the event of shortfall in cash flows from operations if DSRA is not created at the end of 12 months from COD of new STPs. Additionally DSRA can also be provided/restored in the form of bank guarantee in lieu of DSRA from Project cash flows within stipulated timeframe without recourse to project asset during the tenor of the loan by the Sponsor. Further, sponsor has provided undertaking to fund any penalty/liquidated damages imposed by authority on

PWPL during construction and operational phase and fund incremental operating expenses if the variation is more than 10% of the cost as per the base case plan.

Key Rating Weaknesses:

Inherent construction risk associated with the project albeit achievement of COD for package-III

PWPL is exposed to inherent construction risk associated with the project. The facilities of Package-II and Package-III has been handed over to PWPL from May 2019 onwards for the sole purpose of maintenance of existing facilities, while the effective date for the entire project is September 16, 2019.

Of the total project cost of Rs.399.50 crore, PWPL has incurred cost to the tune of Rs.171 crore till January 31, 2021. PWPL has received two inflation indexed construction grant each for Package-I, II and III. Furthermore, Package-III has achieved COD during November 2020 and first annuity receipt for the same is expected by April 2021. Package-II is nearing completion and is envisaged to achieve COD shortly. Furthermore, Package-I has achieved progress of 41.77% till January 2021. PWPL has applied for extension of time (EOT) for completion of Package-I till March 15, 2022 due to COVID-19 and the same is under consideration with NMCG.

Nevertheless, relatively simple nature of the project coupled with strong execution capability of AEL in infrastructure space mitigates the risk to a larger extend. Further, fixed time, fixed price EPC contract entered with the contractor and various sponsor's undertaking to meet any cost overrun and bridge shortfall in project completion also provide additional comfort.

Operational risk in light of power intensive operations, stipulation of maintenance of 100% availability and requisite discharge effluent standards

Being a STP plant, the variability standards of influent cannot be estimated at the initial stage of the project. The variability in the inflow of influent, type of influent affects the discharge of the treated effluent. PWPL has to maintain specific discharge standard for treated effluent for each facilities as per the CA thus exposing PWPL to performance risk. Further, post achievement of COD till the end of the concession period, PWPL shall have to guarantee 100% availability of all the facilities at all the times.

Being continuous processes, sewage treatment operations are power intensive. Further variability of inflow and quality of influent has the direct bearing on power units consumed for the treatment. As per the CA, the power charges for each facility shall initially be borne by PWPL, which shall be reimbursed by NMCG to PWPL on a quarterly basis subject to cap of the relevant quarterly guaranteed energy unit's consumption for such quarter. Hence, non-conformance of any of the above parameters shall lead to imposition of respective LD's – i.e. availability LDs, performance LDs and power consumption LD's by the authority apart from bearing of incremental expenses for excess power consumption. PWPL has proposed to install solar power plant of 2000 kilo watt (KW) in-place of mandatory requirement of 1000 KW and power plant based on bio-gas for energy efficiency. Further, sponsor undertakings provide comfort from credit perspective. Post achievement of COD for Package-III, there has been no instances of non-compliance of any of the performance indicators for the three months ended January 31, 2021.

Liquidity analysis: Adequate

Liquidity of the company is envisaged to remain adequate during construction as well as operational phase. Expected built up of cash surplus from inflation portion on total project cost to be received during construction phase and annuity proceeds of six existing STPs are expected to aid liquidity of PWPL for meeting working capital requirement and creation of DSRA. Further, 'T plus 30 day' structure for debt servicing also provides cushion to take care of any operational delay in the receipt of the annuity from NMCG. In addition various restricted payment covenants and sponsor support undertakings also underpin the liquidity of PWPL.

Analytical Approach- For Credit Enhancement rating (CE): credit enhancement in the form of in the form of sponsor support undertaking of Adani Enterprises Limited (AEL; rated CARE A; Stable/CARE A1) to fund shortfall in Debt Service Reserve Account (DSRA) and replenish the same. AEL has also extended undertakings for funding liquidated damages and excess operating costs over the pre-determined levels among others.

Unsupported Rating: Standalone while factoring linkages with the sponsor i.e. AEL

Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Factoring Linkages in the Rating]
[Criteria for Credit Enhanced Debt]
[CARE's Policy on Liquidity analysis for Non-Financial Sector Entity]

[Rating Methodology - Infrastructure Sector Ratings](#)
[Financial Ratios – Non-Financial Sector](#)

About the Company

PWPL is an SPV formed by Adani Water Limited (AWL; 74% stake) which is a wholly owned subsidiary of AEL in collaboration with Organica Water Private Limited (Organica; 26% stake) to undertake development and rehabilitation of STP and its associated infrastructure on HAM mode basis at Prayagraj, Uttar Pradesh under the 'National Mission for Clean Ganga - Namami Gange Programme'. The project is divided into 3 packages with package I consisting of development of three new STPs of 72 million litres per day (MLD) while package II (two STPs) & package III (four STPs) shall undertake the rehabilitation of the existing STP of 140 MLDs and 114 MLD respectively.

PWPL has entered into CA with NMCG (counterparty) and UP Jal Nigam (project implementing agency). The concession period includes construction period of 24 months, 12 months and six months for Package-I, Package-II and Package-III respectively from effective date and concession period ends after the expiry of fifteen years from Package-I COD.

The project has been awarded at the bid project cost of Rs.908 crore consisting of total project cost of Rs.399.50 crore, O&M cost of Rs.187.00 crore, land cost of Rs.15.40 crore and balance Rs.326 crore is the annuity towards reimbursement of power cost. The total project cost of Rs.399.50 crore is to be funded through sponsor's equity of Rs.59.93 crore, construction payment from NMCG of Rs.159.80 crore and balance through term debt. Till January 31, 2021, PWPL has incurred cost to the tune of Rs.171 crore funded the term debt of Rs.15 crore, equity of Rs.42.00 crore, construction grant of Rs.49.20 crore, mobilization advances of Rs.39.91 crore and balance through other current liabilities.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	December 2032	179.75	CARE A- (CE); Stable
Un Supported Rating-Un Supported Rating (Long Term)	-	-	December 2032	0.00	CARE BBB+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based-Long Term	LT	179.75	CARE A- (CE); Stable	-	1)CARE A- (CE); Stable (06-Mar-20) 2)Provisional CARE A- (SO); Stable (06-Jun-19)	-	-

2.	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BBB+	-	1)CARE BBB+ (06-Mar-20)	-	-

Annexure-3: Covenants of the rated facilities- Not applicable

Annexure-4: Complexity of the instruments

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based-Long Term	Simple
2.	Un Supported Rating-Un Supported Rating (Long Term)	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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