Azure Power Jupiter Private Limited

February 02, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	212.64	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Assigned
Total Bank Facilities	**212.64 (Rs. Two Hundred Twelve Crore and Sixty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The assigned rating derives comfort from the long track record of more than four years for the 50 MW solar power plant with actual generation being in-line with the P90 estimates in FY21 and 7M FY22. This apart CARE positively factors in the revenue visibility on account of a 25 year long term PPA at a fixed tariff of Rs.4.78/kWh along with low counterparty credit risk given the counterparty for the project is NTPC which has a strong credit profile. CARE also makes a note of the satisfactory payment track record of the project with APJPL realising payments against invoices within 30 days from billing. CARE also positively factors in the improvement in debt protection metrics post refinancing of the project debt in Q3 FY2022. The rating is further supported by the presence of a strong promoter in Azure Group which has a long track record in the solar energy sector.

Nevertheless, the rating is constrained on account of the leveraged capital structure along with exposure of the project cash flows to adverse variation in weather conditions given the single part tariff for the project. CARE also factors in the interest rate fluctuation risk and asset concentration risk given the full capacity is located in a single state.

Key Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:
- Actual generation remaining in line with P 90 levels along with receivable cycle remaining below 30 days on a sustained basis resulting in strong liquidity position for the project
- Significant reduction in the leverage level for the project

Negative Factors- Factors that could lead to negative rating action/downgrade:
- Negative pressure on APJPL's rating could arise if there are significant delays in payments from NTPC leading to significant accumulation of receivables thereby adversely affecting the liquidity position of the project
- Underperformance in actual generation on a sustained basis and/or any increase in the debt levels resulting in weakening of average DSCR of project debt to less than 1.2 times
- Non-compliance of various covenants as per sanction terms including continued maintenance of DSRA equivalent to 1 quarter of debt servicing

Detailed Description of the Key Rating Drivers
Key Rating Strengths

Long -term revenue visibility on account of long-term PPA with NTPC

APJPL has low offtake risks owing to the presence of a long-term (25-year) PPA with NTPC at a fixed tariff of Rs. 4.78 per unit for the entire duration of the project, i.e., till September 2042. The long-term PPAs provide revenue visibility for the company. NTPC is an intermediary counterparty and bundles the energy generated from this project with thermal power and sells to distribution utilities, which are the ultimate offtakers. NTPC has signed PSAs with distribution utilities in Uttar Pradesh.

Relatively superior PPA

The counterparty credit risk for the project is low on account of NTPC being the offtaker for the project for the entire duration of 25 years. NTPC has a strong credit profile as reflected by a credit rating of CARE AAA; Stable / CARE A1+. Further, strengths for the project emanate on account of (i) having PPA with a strong counterparty, (ii) presence of LC mechanism, (iii) NTPC bundling this power with cheaper thermal power, thereby improving the cost competitiveness (iv) NTPC having the right to regulate power to the PSA counterparty in case of an event of default and (v) NTPC being a party to the tripartite agreement (TPA).

Operational track record of more than four years with generation performance being in line with P 90 levels in the last two years

The 50 MW grid connected solar photovoltaic (PV) under APJPL is located at Hamirpur, Shahjahanpur, Hardoi and Banda district in Uttar Pradesh and was commissioned in phases from June, 2017 till September 2017. APJPL has an operational track record of more than four years. The generation performance in the initial few years was lower than envisaged levels on account of stabilisation issues, lower irradiation levels and lower DC capacity being operational initially. However, post installation of

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

incremental DC capacity from February 2020 onwards, the annual PLF has been in line with the envisaged P90 PLF levels. The company reported a PLF of 18.6% and 18.9% for FY2021 and 7M FY2021 as against P 90 PLF of 18.6%. Nevertheless, going forward, achieving generation levels in-line with P-90 estimates would continue to be a key rating monitorable.

Presence of a strong offtaker results in timely payments and mitigates counterparty credit risks
The presence of a strong intermediate counterparty like NTPC (CARE AAA (Stable)/CARE A1+) is expected to lead to timely realisation of payments under the PPA. On an average, the collection days remained below 30 days, resulting in less amount of funds being blocked as debtors for the company and therefore ensuring satisfactory liquidity.

Favourable refinancing of the project debt resulting in comfortable debt protection metrics
APJPL has refinanced its existing term debt during Q3FY22. As per the terms of the refinanced debt there has been a reduction in interest cost of the project resulting in improvement in debt coverage indicators of the project. APJPL has relatively comfortable debt coverage indicators as reflected by average DSCR of 1.25x for the tenure of the term debt. Further, in-line with the sanctioned terms, APJPL has been maintaining DSRA equivalent to one quarter's debt obligations in the form of Bank Guarantee (BG) which provides comfort from the credit perspective.

Strong parentage and operating track record of Azure Group in solar segment
APJPL is a subsidiary of APIPL (rated CARE A+; Stable/CARE A1+), which is the flagship Indian company of the Azure Group and a subsidiary of APGL (listed on NYSE). CDPQ is a pension fund of Canada, (rated Moody's Aaa (Stable)), during March 2020, increased its stake in the Azure Group to above 50%. The second largest shareholder in the group is OMERS which is also a Canadian pension fund. APIPL has reported an operational solar portfolio of ~2.4 GW and capacities under development of ~4.8 GW as on September 30, 2021 making APIPL one of the largest renewable IPPs in India. The company's portfolio of solar power assets is well diversified in terms of project location as well as off-takers with more than 60% exposure towards off-takers having relatively strong credit profile.

Industry Outlook
India has an installed renewable capacity of ~105 GW (excluding large hydro) as on December 31, 2021, comprising solar power of 49 GW, wind power of 40 GW, small hydro of 5 GW and other sources including biomass of 11 GW. There has been a significant traction in solar power installations over the last few years and the cumulative solar power capacity has surpassed the installed wind power capacity despite its late and slow start. Over the years renewable energy industry has benefitted on account of Government's strong policy support, India's large untapped potential, presence of creditworthy central nodal agencies as intermediary procurers and high tariff competitiveness. Going forward, with India setting up an ambitious target of achieving 450 GW renewable capacity by 2030, the regulatory framework is expected to remain supportive. However, developers are expected to face challenges in the near term on account of rising cost of modules, turbines and other ancillary products along with imposition of basic custom duty on cells and modules which will become effective from April 2022 and is expected to drive up costs and result in increase in bid tariffs for new projects. This apart, challenges for acquisition of land and availability of transmission infrastructure also remains a key bottleneck. However, the Indian renewable industry continues to be a preferred investment alternative for both domestic as well as foreign investors and is expected to post robust growth going forward as well which results in CARE assigning a Stable outlook to the industry.

Key Rating Weaknesses

Vulnerability of cash flows to variation in weather conditions
As tariffs are one part in nature, the company may book lesser revenues in the event of non-generation of power due to variation in weather conditions and/or equipment quality. This, in turn, would affect its cash flows and debt servicing ability. The geographical concentration of asset amplifies the generation risk.

Leveraged capital structure along with exposure to interest rate risk
APJPL's capital structure is leveraged on account of the debt-funded capex incurred for setting up the project along with deterioration in the net worth base resulting from negative accretion in reserves since commissioning of the project. Subsequently the overall gearing of the company stood at 7.3x as on FY2021 end. Given the high amount of debt outstanding, CARE expects gearing levels to remain above 6.0x and Debt/EBITDA to remain between 6.6-6.8x over the next two years.
Given the leveraged capital structure, single-part nature of the fixed tariff in the PPA and floating interest rates, its profitability remains exposed to any increase in interest rates. However, CARE notes that the rate of interest for the company is fixed for an initial period of five years and would be subject to reset after every subsequent five years, thereby mitigating the interest rate risk to some extent.

Liquidity Analysis: Adequate
As on December 2021, APJPL had cash balances of ~Rs. 5.3 crore. This apart, the company has a one quarter DSRA in the form of bank guarantee aggregating to Rs. 7.8 crore. Going forward, CARE expects the generation and collection performance of the project to remain satisfactory and in line with the existing trends as NTPC accounts for the full energy offtake. Company has not availed any working capital facilities. As per CARE's base case GCA's for FY23 and FY24 is expected to be ~Rs. 17.0 crore as against annual repayments of Rs. 9-10 crore.

Analytical Approach: Standalone

Applicable Criteria
Financial Ratios – Non-Financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Infrastructure Sector Ratings
Power Generation Projects
Solar Power Projects

About the Company
APJPL is a subsidiary of APIPL which is a step down subsidiary of APGL which in engaged in the business of renewable energy. APIPL holds 51% stake in APJPL and the remaining is held by Hanwha Energy Corporation Singapore Pte. Ltd. APJPL has set up a 50 MW AC (50.25 MW DC) solar power plant based on Photo Voltaic (PV) technology located at Hamirpur, Shahjahanpur, Hardoi and Banda district in Uttar Pradesh. Subsequently additional DC capacity of ~8.45 MW was added to the project during February 2020 increasing the installed DC capacity to 58.69 MW. The company is supplying entire power to NTPC at a fixed tariff of Rs.4.78/kWh under a 25-year PPA.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22
Total operating income	33.8	38.6	NA
PBILDT	30.0	34.2	NA
PAT	-15.3	-7.9	NA
Overall gearing (times)	6.1	7.3	NA
Interest coverage (times)	0.9	1.4	NA

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

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 - LT-Term Loan	-	-	Sep, 2037	212.64	CARE AA-; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	212.64	CARE AA-; Stable				

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

<table>
<tr><th>Name of the Instrument – Term Loan</th><th>Detailed explanation</th></tr>
<tr><td>A. Financial covenants</td><td></td></tr>
<tr><td>I. Min DSCR
II. Fixed Asset Coverage Ratio</td><td><table><tr><td>Parameter</td><td>Acceptable Level for Covenant Testing</td></tr><tr><td>Min DSCR</td><td>1.15x</td></tr><tr><td>Fixed Asset Coverage Ratio</td><td>1.15x</td></tr></table>The covenants will be tested based on audited financials every year during the currency of the loan. First financial covenant testing shall be conducted on 31st March 2022.</td></tr>
<tr><td>B. Non-Financial covenants</td><td></td></tr>
<tr><td rowspan="3">Other Conditions</td><td>If the Borrower fails to meet Financial Covenants as stipulated, additional interest of 1% per annum over and above Applicable Interest Rate to be charged on the outstanding amount under the Facility / Loan. Such additional interest shall be payable from the date of deviation until such deviation is cured.</td></tr>
<tr><td>The borrower shall to the satisfaction of NIIF IFL, maintain comprehensive insurance covers. The insurance cover would be kept valid throughout the tenure of the Loan and insurance covers against loss of assets securing the Loan to be endorsed in favour of NIIF IFL /security trustee as a 'loss payee' / assigned in favour of NIIF IFL/ Security Trustee;</td></tr>
<tr><td>The borrower shall agree and undertake that it shall keep itself / Loan rated by ICRA / CARE / CRISIL / India Ratings throughout the tenor of the Loan. The Borrower shall maintain credit rating of at least equivalent to investment grade during tenor of the Loan. The Borrower shall promptly inform the Lender regarding any up gradation/down gradation in the Credit Rating.</td></tr>
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Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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