WAA Solar Limited

March 03, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	63.75 (Reduced from 69.58)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**63.75 (Rs. Sixty-Three Crore and Seventy-Five Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of WAA Solar Limited (WSL) continues to remain underpinned by vast experience of its promoters in the infrastructure sector, satisfactory capacity utilisation factor (CUF) levels since commencement of its operations along with operational track record of around nine years till January 31, 2021, timely receipts from strong off taker; Gujarat Urja Vikas Nigam Limited (GUVNL; rated CARE AA-; Stable/CARE A1+), long-term revenue visibility due to presence of power purchase agreement (PPA) with GUVNL at a fixed tariff for twenty five years, adequate liquidity backed by presence of debt service reserve account equivalent to one quarter of debt obligations, moderate debt coverage indicators and favorable policy framework for solar power generation business on the back of various government-led reforms & incentives to encourage investments in this segment.

The rating also takes cognizance of consistent improvement in WSL's capital structure along with reduction in loans and advances granted to group companies and guaranteed debt as on March 31, 2020, however loans & advances granted to group companies has been marginally increased as on September 30, 2020 and satisfactory track record of operations of three Special Purpose Vehicles (SPVs) wherein WSL has extended corporate guarantee.

The rating, however, continues to remain constrained on account of susceptibility of power generation to variation in climatic conditions & technology risk associated with solar power plants, interest rate fluctuation and client concentration risk.

CARE also takes cognizance that WSL has not availed moratorium on debt repayment for its bank facilities available under RBI's COVID relief program during March-August 2020.

Rating Sensitivities

Positive Factors:

- Ability of the company to demonstrate a sustained improvement in its capacity utilization factor (CUF) levels above 20% along with improvement in its profitability.
- Improvement in credit profile of off taker i.e. GUVNL.

Negative Factors:

- Reduction in CUF levels below 16.00% on sustained basis which will result in decline in profitability and weakening of liquidity position of the company.
- Delay in receipt of payments from GUVNL beyond 30 days on a sustained basis.
- Deterioration in credit profile of off taker i.e. GUVNL.
- Any change in business activity including venturing into Engineering, Procurement & Construction (EPC) business which results in deterioration of WSL's financial risk profile.
- Investment in group companies or extending corporate guarantees which has a detrimental impact on its debt coverage indicators and liquidity position.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter group and established presence of the group in infrastructure sector: WSL is a part of Vadodara-based Madhav group which has an established track record in executing various solar power projects on EPC basis for third parties as well as for group companies. Till date, the group has executed solar power projects of around 84MW in various states.

WSL is promoted by Mr Ashok Khurana and his son Mr Amit Khurana, who possess vast experience in the infrastructure industry. The promoter group is ably supported by team of experienced professionals in day to day operations of the group companies.

Established operational track record with satisfactory generation levels: WSL's solar plant was commissioned in January 2012 and has an operational track record of around nine years as on January 31, 2021. During FY20, average CUF declined marginally to 18.43% (FY19: 19.33%) due to adverse weather conditions. 'Must-run status' for all the renewable energy (RE) projects ensured minimal impact of nation-wide lockdown (due to COVID-19) on operations of the company.

During 10MFY21 (refers to the period April 1 to January 31), the operational performance of WSL has improved with average CUF of 18.14% as compared to 17.87% during 10MFY20.
WSL reported total operating income of Rs.26.81 crore during FY20 (FY19: 27.01 crore).

Long-term PPA with GUVNL having strong credit profile and satisfactory payment track record: WSL has signed PPA for the entire capacity with GUVNL for a term of 25 years at a fixed tariff of Rs.15 per kWh for the first 12 years and Rs.5 per kWh for the remaining 13 years. The presence of long-term PPA at a fixed tariff for the tenure of 25 years with a strong counterparty ensures cash flow sustainability & low off take risk. Further, WSL has a satisfactory track record of receiving prompt payments from GUVNL against the monthly invoices drawn on it for sale of power.

Comfortable capital structure and moderate debt coverage indicators: WSL's capital structure continued to remain comfortable with below unity overall gearing of 0.41x as on September 30, 2020 (0.45x as on March 31, 2020) owing to scheduled repayment of term loan & accretion to reserves. Further, overall gearing adjusted for recourse nature of debt of SPVs, albeit high, also improved as on balance sheet date due to reduction in amount of debt guaranteed by WSL for its SPVs. The debt coverage indicators are expected to remain moderate over the tenor of the loan. However, going forward CUF level achieved by WSL, which has a direct impact on GCA and debt coverage indicators, will remain a key rating monitorable.

Satisfactory operations of guaranteed group entities with changes in group structure: WSL has guaranteed debt for three operational SPVs of the Madhav group. Out of three SPVs, two require marginal support from WSL for servicing debt obligations.
During FY20, WSL sold its entire stake in two of its subsidiaries to third parties and acquired stake in one entity from a related party. WSL earned profit of Rs.9.43 crore on sale of stake, which resulted in improvement in its PAT and GCA during FY20. Furthermore, during H1FY21 (refers to the period April 1 to September 30), WSL purchased preference shares of one of its group entity.

Favorable renewable energy framework with stable industry outlook: There is great thrust from Govt. for improving the share of solar power in India's overall power mix which is reflected from various policy initiatives. There had been muted solar power generation capacity additions during last two years due to imposition of safeguard duty on import of solar modules and cancellation of large amount of solar auctions among others. However, looking at the already allotted capacity and government's push for achieving targeted solar capacity of 100 GW by end of FY22, capacity additions are likely to improve in next two to three years. However, there are concerns like increased difficulties in land acquisition, poor evacuation infrastructure, very high dependence on imported solar cells & modules, regulatory haze in terms of renegotiation of tariff in concluded PPAs and cancellation of concluded auctions, weak financial risk profile of few Discoms resulting in significant delays in payment and increased difficulties in debt tie-up. Overall, positive and negative developments in the sector counterbalance each other, thereby resulting in a stable outlook.

Key Rating Weaknesses
Exposure of the project towards climatic conditions and technological risk: The CUF level of a solar power plant primarily depends upon solar radiation levels, climatic conditions, degradation of modules and technology used. Furthermore, the performance track record of the thin film type PV modules, used by WSL, in Indian conditions is relatively limited. Although, the modules and other equipment have been sourced from reputed suppliers, technological risk persists for the project duration.

Interest rate risk: Interest rate on debt is reset periodically by lenders to align with market rates. Any significant adverse variation in the interest rates could potentially lower project return and affect the debt coverage indicators, since the tariff is fixed as per PPA. However, during H1FY21, WSL refinanced its existing term loan resulting in reduction in rate of interest on bank debt.

Client concentration risk: GUVNL is the sole off-taker of the solar power generated from the WSL's plant, which exposes it to client concentration risk. However, strong financial risk profile of GUVNL and its established track record of prompt payments mitigate this risk to a certain extent.
Further, in case power producer (PP) terminates the PPA on GUVNL's default, GUVNL shall be liable to make payment equivalent to three years billing based on first year's tariff considered on normative CUF within 30 days as compensation to PP. However, in such a case, for subsequent years, WSL will be able to sell the produced power at market rates which are currently much below rate as per the PPA.

Liquidity: Adequate
WSL's liquidity position remained adequate with defined cash flow mechanism in place, maintenance of adequate DSRA and receipt of payments within 7 days of submission of monthly bill. Further, WSL's solar project has a comfortable tail period of five years.
As on December 30, 2020, WSL has funded DSRA equivalent to one quarter of debt servicing obligations amounting to Rs.4.60 crore in the form of fixed deposit (FD) & subordinated FD of Rs.1.00 crore with the lender in line with sanction conditions. Moreover, WSL had cash & bank balance (including lien marked FD balance) of Rs.28.94 crore as on September 30, 2020.
However, on refinancing, lien-marked fixed deposit with the previous lender has been released and WSL has advanced the released funds to its group companies.
Going forward, the company is envisaged to generate surplus (available for debt servicing) of around Rs.20-22 crore which is adequate to cater the debt servicing obligations (including interest) of around Rs.16-19 crore in FY21-FY23.

Analytical approach: Standalone financials of WSL along with combined cash flows of WSL and the SPVs, wherein WSL has extended corporate guarantee to the debt of such SPVs, has been considered while assigning rating to WSL.

Applicable Criteria
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology - Power Generation Projects]
[Rating Methodology: Solar Power Projects]
[Financial ratios – Non- Financial Sector]
[Liquidity Analysis of Non-Financial Sector Entities]
[Rating Methodology: Notching by factoring linkages in Ratings]

About the Company
Incorporated in November 2009, Vadodara-based WSL is a subsidiary of Madhav Power Private Limited, promoted by Mr Ashok Khurana and Mr Amit Khurana. The promoters of WSL were the erstwhile promoters of MSK Projects India Ltd., which was subsequently taken over by the Welspun group (now known as Welspun Enterprises Limited). Further, on June 12, 2018, WSL got listed on BSE SME exchange.
WSL has set-up a 10.25-MW (AC -10MW) grid interactive solar PV power project and signed a PPA for 25 years with GUVNL under the Gujarat Solar Policy 2009 framework for the sale of generated power. The project is located at Surendranagar district in Gujarat. This apart, WSL has also commissioned a 0.10 MW grid interactive solar PV power project at Rajabhoj Airport, Bhopal, which commenced its operations in July 2013.
Apart from the above, WSL has sponsored Madhav group's various project-specific SPVs in the road construction and solar power segments.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	27.01	26.81
PBILDT	25.17	23.74
PAT	5.29	10.29
Overall gearing (times)	0.55	0.45
PBILDT Interest coverage (times)	2.65	2.77

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Complexity level of various instruments rated for this company: Please refer Annexure-3

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
Term Loan-Long Term	-	-	March 2032	63.75	CARE A-; 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 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.	Term Loan-Long Term	LT	63.75	CARE A-; Stable	1)CARE A-; Stable (31-Aug-20)	1)CARE A-; Stable (24-Jul-19) 2)CARE A- (CWN*) (21-Jun-19)	1)CARE A-; Stable (05-Oct-18)	1)CARE A-; Stable (09-Oct-17)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	-	-	-	-	-	1)Withdrawn (09-Oct-17)

**under credit watch with negative implications*

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Term Loan-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.*

Contact us

Media Contact
Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Mr. Ujjwal Patel
Contact no.- +91- 79-4026 5649
Email ID- ujjwal.patel@careratings.com

Relationship Contact
Mr. Deepak Prajapati
Contact no. - +91-79-4026 5656
Email ID – deepak.prajapati@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**