Avaada Sunshine Energy Private Limited

January 04, 2023

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	706.90	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Total Bank Facilities	**706.90 (₹ Seven Hundred Six Crore and Ninety Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Avaada Sunshine Energy Private Limited (ASEPL), which is setting up a solar power capacity of 200 MW AC (288 MW DC), at Agar Solar Park, Madhya Pradesh, factors in the strong and resourceful parentage by virtue of ASEPL being a subsidiary of Avaada Energy Private Limited (AEPL) which has a satisfactory track record of developing and operating renewable energy projects. The group has an operating capacity of ~3.9 GW (DC) as on December 2022 end. Furthermore, the rating positively factors in presence of a promoter support undertaking which ensures that in case of a cost overrun in the project, promoters will have to bring in additional funds and those would remain subordinated to the sanctioned loan. Furthermore, the project has a limited period corporate guarantee from AEPL which shall be valid till creation of DSRA and perfection of security.

The rating also derives strength from the presence of a long-term power purchase agreement (PPA) with MP Power Management Company Limited (MPPMCL) and Indian Railways at a tariff of Rs. 2.459 per unit, which provides long-term revenue visibility. The rating also draws comfort from the favourable location of the project in RUMSL solar park with Solar Park Implementation Agency (SPIA) being responsible for ensuring availability of land and construction of evacuation infrastructure. Additionally, the payment security mechanism in RUMSL is multi-layered and includes letter of credit, payment security fund and guarantee by Government of Madhya Pradesh for the power procured by Madhya Pradesh state distribution company. Further, Indian Railways, has authorised RBI to debit its account upto generation for four months which can be drawn upon by the generator in case of a delay in clearing of invoices.

The rating is, however, constrained on account of exposure to execution risk as the project is in an under-implementation stage with the present progress limited to only part acquisition of the overall land requirement and part erection of fencing poles for the acquired land. As per CARE Ratings, the envisaged cost estimates as assumed by the company are on the aggressive side and would require a sharp correction in the module prices and other commodity prices to ensure the completion of the project within the projected cost. The ability of the company to execute the project without any material time and cost overrun will be a key credit monitorable. Furthermore, the capital structure of the company is expected to be leveraged as the project is funded through a mix of debt and equity (75:25). Consequently, the company remains exposed to variations in the interest rates as the debt is linked to floating rates. CARE Ratings also takes into account vulnerability of project cash flows to adverse variation in weather conditions, given the PPA tariff is single part and fixed for the full tenor.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Successful commissioning of the project within the budgeted cost and envisaged timelines
- Actual generation levels in line with the P90 generation estimate and collection cycle remaining below 90 days on a sustained basis resulting in improvement in coverage indicators and liquidity
- Significant reduction in the leverage level

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any material time or cost overrun leading to significant delay in commissioning of the project, adversely impacting project's profitability
- Significant underperformance in generation and/or any increase in the debt levels of the entity thereby weakening the cumulative DSCR on project debt to less than 1.20 times, on a sustained basis

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

- Weakening of the credit profile of the parent, i.e., AEPL, or any change in linkages/support philosophy between the parent and ASEPL would be a negative factor

Detailed description of the key rating drivers

Key rating strengths

Experienced and resourceful promoter group with proven track record in renewable energy business

The entity is a wholly owned subsidiary of Avaada Energy Private Limited (AEPL), the flagship company of Avaada Group. The Avaada group has solar energy portfolio of 4387 MW(DC) out of which 3930 MW (DC) assets are operational, and 458 MW (DC) assets are under construction. The portfolio is diversified across multiple states and counterparties.

Avaada group's stated posture towards the entity is strong, as exhibited by the presence of a promoter support undertaking which ensures that in case of a cost overrun in the project, promoters will have to bring in additional funds and those would remain subordinated to the sanctioned loan. Furthermore, the project has a limited period corporate guarantee from AEPL which shall be valid till creation of DSRA and perfection of security.

Long-term revenue visibility on account of presence of long-term PPA with MPPMCL and Indian Railways

The company has low offtake risks on account of a long-term PPA with MPPMCL and Indian Railways at a fixed tariff of Rs. 2.46 per unit for a tenor of 25 years, providing revenue visibility to the company. The project draws comfort from the favourable location of the project in RUMSL solar park with SPIA being responsible for ensuring availability of land and construction of evacuation infrastructure. Additionally, the payment security mechanism in RUMSL is multi-layered and includes letter of credit, payment security fund and guarantee by Government of Madhya Pradesh for the power procured by Madhya Pradesh state distribution company. Further, Indian Railways, has authorised RBI to debit its account upto generation for four months which can be drawn upon by the generator in case of a delay in clearing of invoices. CARE Ratings further takes a note that 78% of the power from this plant would be procured by MPPMCL and remaining by Indian railways.

Industry Outlook

India has an installed renewable capacity of ~110 GW (excluding large hydro) as on March 31, 2022, comprising solar power of 54 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. The overall renewable energy installations have increased at a CAGR of 17% from FY16-FY22. 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 improvement in 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 from April 2022 onwards which 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 3 CARE Ratings Ltd. Press Release domestic as well as foreign investors and is expected to post robust growth going forward as well which results in CARE Ratings Ltd assigning a Stable outlook to the industry.

Key rating weaknesses

Exposure to execution risks on account of project being under implementation at present; Aggressive cost estimates given the prevailing module and commodity prices

The project is exposed to execution risk on account of project being under implementation with the present progress limited to only part acquisition of the overall land requirement and part erection of fencing poles for the acquired land. As per CARE Ratings, the envisaged cost estimates as assumed by the company are on the aggressive side and would require a sharp correction in the module prices and other commodity prices to ensure the completion of the project within the projected cost. The ability of the company to execute the project without any material time and cost overrun will be a key credit monitorable

Leveraged capital structure along with exposure to interest rate risks

The capital structure of the company is expected to be leveraged on account of the debt-funded capex (75:25) incurred for setting up the project. Furthermore, given the single-part nature of the fixed tariff in the PPA and floating interest rates, the profitability remains exposed to any increase in the interest rates.

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.

Liquidity: Adequate

The SPV is currently under-implementation stage. AEPL has extended Sponsor Support to the lender of this SPV towards meeting any shortfall in project and debt servicing. DSRA of one quarter is to be created within 9 months from commissioning out of project cash flows. CARE expects the generation level to be in line with P90 estimates. The internal accruals are expected to be adequate to service its debt obligations. As per CARE's base case, GCAs for FY25 and FY26 are expected to be ~Rs. 36 and 38 crores as against annual repayments of around Rs. 24 and 26 crores, respectively.

Analytical approach

Standalone plus factoring in the parent support

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
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
Policy on Withdrawal of Ratings

About the company

ASEPL, incorporated on June 21, 2021, is a 100% subsidiary of AEPL. ASEPL is setting up a 200 MW AC (288 MW DC) wind power plant at Agar Solar Park, Madhya Pradesh. The company has entered into a PPA with MPPMCL and Indian Railways for a period of 25 years from scheduled commissioning date (i.e., September 2023) at a tariff of Rs 2.46 per unit.

Brief Financials: Not Applicable, as the project is under construction

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	31-03-2044	678.00	CARE BBB-; Stable
Non-fund-based - LT-BG/LC		-	-	-	16.00	CARE BBB-; Stable
Non-fund-based - LT-Forward contract/derivative limit		-	-	-	12.90	CARE BBB-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	678.00	CARE BBB-; Stable				
2	Non-fund-based - LT-BG/LC	LT	16.00	CARE BBB-; Stable				
3	Non-fund-based - LT-Forward contract/derivative limit	LT	12.90	CARE BBB-; Stable				

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
Financial covenants	• Fixed asset coverage ratio>=1.25x • Average DSCR>=1.16x • Interest coverage ratio>=1.5x • TOL/TNW<=4x

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
2	Non-fund-based - LT-BG/LC	Simple
3	Non-fund-based - LT-Forward contract/derivative limit	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 instruments: CARE Ratings 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 us:
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