KN Indi Vijayapura Solar Energy Private Limited

December 05, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities#	91.13 (Reduced from 92.57)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A+ (CE); Stable [Single A Plus (Credit Enhancement); Outlook: Stable]
Total Bank Facilities	**91.13 (₹ Ninety-One Crore and Thirteen Lakhs Only)**		

Details of instruments/facilities in Annexure-1.
#In line with Reserve Bank of India's circular to credit rating agencies dated April 22, 2022 on credit enhanced ratings, CareEdge Ratings has removed credit enhanced ratings assigned/outstanding to bank-facilities/instruments where credit enhancement is based on co-obligor arrangement between the entities.

Unsupported Rating	**Withdrawn [Withdrawn]**

Note: Unsupported Rating does not factor in the explicit credit enhancement.

Detailed rationale and key rating drivers

CARE Ratings has taken a combined approach for rating the bank facilities of Essel Urja Private Limited (EUPL), TN Urja Private Limited (TNUPL), KN Sindagi Solar Energy Private Limited (KN Sindagi), KN Indi Vijayapura Solar Energy Private Limited (KN Indi), KN Bijapura Solar Energy Private Limited (KN Bijapura), KN Muddebihal Solar Energy Private Limited (KN Muddebihal), Essel Gulbarga Solar Power Private Limited (Essel Bagalkot) and Essel Bagalkot Solar Energy Private Limited (Essel Gulbarga), herein referred to as Adani RG, owing to the presence of the intercompany agreement between the entities. All the entities have the benefit of pooling of surplus cash flows from the individual entities to service shortfall in debt servicing if any, in any of these entities. The agreement is unconditional, irrevocable, valid for full tenure of rated debt facilities, has a well-defined T minus structured payment mechanism and is characterised by the cross default clause between the eight entities.

The rating action factors in the satisfactory operational performance of the underlying assets of RG as reflected by the operational track record of ~6 years along with generation performance in the last 12 months being in line with designed energy levels and moderate collection profile. This apart, CARE Ratings positively factors in the revenue visibility for the 175 MW capacity in the RG as all the assets have contracted power purchase agreements (PPAs) with state counterparties. CARE Ratings, also makes note of the presence of a two-quarter DSRA for the entire capacity and healthy debt coverage indicators with average Debt Service Coverage Ratio (DSCR) being upwards of 1.6x. The rating is further supported by the strong parentage of the entities by virtue of these being a part of The Adani Green Energy Limited (AGEL) group.

Nevertheless, the rating is constrained on account of moderate counterparty credit profile for the underlying capacity along with leveraged capital structure. This apart CARE Ratings notes that 100 MW capacity in the RG is exposed to tariff negotiation risk with the present PPA' s due for expiry between FY29 and FY31. However, given the fact that, a major portion of the debt linked to these projects is expected to get amortised before this event, the debt coverage indicators are expected to remain at healthy levels despite factoring in significantly lower tariffs. The rating also factors in the exposure of company performance to adverse variation in weather conditions given the single part tariff for the projects.

Rating sensitivities

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

- Achievement of generation in-line or better than envisaged levels for the RG on a sustained basis, thereby positively impacting the debt coverage indicators
- Significant reduction in the leverage level for the project

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

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

- Significant deterioration in the generation profile on a sustained basis
- Significant delays in receipt of payments on a portfolio basis thereby resulting in a constrained liquidity position
- Inability to extend PPA for the 100 MW UP assets at the envisaged tariffs as per the existing PPA

Detailed description of the key rating drivers

Key rating strengths

Presence of an intercompany agreement for pooling of surplus cash flows

The eight SPVs (EUPL, TNUPL, KN Sindagi, KN Indi, KN Bijapura, KN Muddebihal, Essel Gulbarga and Essel Bagalkot) of Adani Group have jointly formed an RG wherein these entities would be jointly servicing the combined debt obligations. The shortfall in meeting the debt obligations by one entity shall be met through surplus cash flows from the other entities in the structure. CARE also factors in the presence of a structured waterfall mechanism as per the TRA documents. The first priority of the cash flows would be to meet payments of taxes and statutory dues followed by operating costs. Thereafter servicing of debt obligations including the working capital limits shall be done and the remaining balance is to be used for maintenance of necessary reserves including DSRA and IRR. The surplus thus remaining shall be transferred to the surplus account.

Diversified asset pool in terms of offtake and geography

The 175 MW capacity in the RG is spread across eight SPVs of AEH10 with all the assets belonging to solar power. The RG structure benefits on account of diversification as the installed capacity is spread in two states viz. Karnataka (43%) and Uttar Pradesh (57%). Moreover, the RG pool also has a diversified offtaker pool comprising four counterparties i.e., Uttar Pradesh Power Corporation Ltd. (UPPCL, 57%), Bangalore Electricity Supply Company Limited (BESCOM, 23%), Hubli Electricity Supply Company Limited (HESCOM, 17%) and Gulbarga Electricity Supply Company Limited (GESCOM, 3%).

Long term revenue visibility on account of presence of PPAs for the entire capacity

CARE Ratings factors in the presence of medium to long term PPAs for the full 175 MW capacity under the RG pool with the weighted average tariff being ~Rs. 6.8 per unit which provides the necessary revenue visibility for the structure. CARE Ratings, however, makes a note that tariffs for 100 MW capacity mapped to UPPCL is subject to revision in the next 4-6 years. As per the respective PPAs, the tenure of these projects can be extended by a further 13 years post expiry of the first 12 years at the APPC of the 11th year from COD and provided the same is agreeable to both the parties. Given the decline in renewable tariffs, the discom may not be very keen to renew the PPAs at the mentioned APPC rate which could pose an offtake challenge for these projects. However, CARE Ratings draws comfort from the fact that major portion of the debt mapped to these projects is expected to be amortised before the expiry of first 12 years and the projected coverage indicators despite factoring in a lower tariff remain healthy.

Operational track record of almost six years for the RG pool; Generation performance in the last 12 months in line with P90 level

The projects in the portfolio have been commissioned in a phased manner with assets having operating track record between 4 and 9 years. The overall weighted average track record of the portfolio is approximately six years. The generation performance of the solar assets over the last twelve months has been primarily in line with the designed energy levels as reflected by the TTM PLF of 19.7% as against estimated P90 level of 19.8%. The company witnessed 7M FY23 PLF of 19.6% as against the PLF of 18.8% in 7M FY22. Going forward, CARE Ratings expects the generation from the underlying assets to remain broadly in line with designed energy levels.

Comfortable debt coverage metrics

The debt coverage metrics of the project are expected to remain comfortable supported by the long tenure of project debt and satisfactory operating performance. The cumulative DSCR on the project debt is estimated to remain above 1.6 times over the debt repayment tenure. Further, the presence of DSRA, equivalent to two quarters of debt obligations along with working capital limits equivalent to one quarter's receivables, provides comfort from the credit perspective.

Strong parentage by virtue of being part of Adani Renewables Group translating into strong financial flexibility for the RG entities

The entities which are part of the co-obligor structure are 100% subsidiaries of Adani Renewable Energy Holding Ten Limited (AREH10) which is a 100% subsidiary of Adani Green Energy Twenty-Three Limited (AGE23) which is a 50-50 joint venture between Adani Green Energies Limited (AGEL) and Total Energies. CARE also notes that apart from owning 50% stake in AGE23 which operates 2.4 GW renewable energy portfolio. Total Energies also owns 20% stake in AGEL which is the flagship entity of the Adani Group in the renewable energy space. AGEL has strong financial flexibility by virtue of it being backed by reputed promoters. AGEL has an operational capacity of ~6.3 GW and capacity under development of ~13.7 GW as of September 30, 2022.

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 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

Moderate financial risk profile of off-takers in portfolio with significant delay in realization of receivables from HESCOM

The RG assets have exposure to state discoms in Uttar Pradesh and Karnataka. The company has been receiving payments in a regular manner from all discoms apart from HESCOM (offtaker for 30 MW capacity) wherein, the overdue amount stands close to 8-12 months. The receivable position on a consolidated level stands at ~3-4 months. Nevertheless, HESCOM has opted for the EMI scheme introduced by Ministry of Power (MoP) and the payments will be realised in 48 EMIs out of which two instalments have already been received by the projects having exposure to HESCOM. Going forward, on a combined basis, CARE Ratings expects the receivables position to remain around 120 days over the next 24 months.

Leveraged capital structure along with exposure to interest rate risks; Project coverage metrics however remain at comfortable level

The restricted group’s capital structure is leveraged on account of the debt-funded capex incurred for setting up the projects which is customary to the renewable energy sector. Subsequently, the overall gearing of the restricted group stood at 2.4x as on FY22 end. Given the high amount of debt outstanding, CARE Ratings expects Total Debt/EBITDA to remain between 3.5x and 4.0x over the next two years. Given the leveraged capital structure, single-part nature of the fixed tariff in the PPA and floating interest rates, company’s profitability remains exposed to any increase in the interest rates. However, CARE Ratings notes that interest rate is fixed for a period of two years upto March 2024 and would be subject to reset annually thereafter.

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.

Liquidity: Adequate

As on October 2022 end, the RG entities had cash balances of around Rs. 55 crore excluding two quarter DSRA reserve of Rs. 70 crore. Moreover, the group has sanctioned working capital limits of ~Rs. 37 crore which are completely unutilised. Going forward, CARE Ratings expects the generation from the assets to remain broadly in line with designed energy levels. Collection days are expected to remain around 120 days over the next two years and moderate to 90 days thereafter. The internal accruals from the structure are expected to be adequate to service its debt obligations. As per CARE Ratings’ base case, gross cash accruals (GCA) for FY23 and FY24 is expected to be around Rs. 73-75 crore as against the annual repayments of Rs. 56-64 crore.

Analytical approach

CARE Ratings has applied a combined approach for rating the bank facilities of (EUPL, TNUPL, KN Sindagi, KN Indi, KN Bijapura, KN Muddebihal, Essel Gulbarga and Essel Bagalkot), hereafter referred to as Adani RG, on account of the presence of co-borrower arrangement for pooling of surplus cash flows from the individual entities to service shortfall in debt servicing if any, in any of these entities. The agreement is unconditional, irrevocable, valid for the full tenor of the rated debt facilities, has a well-defined T minus structured payment mechanism and is characterised by the presence of a cross-default clause between all the eight entities. Further, CARE Ratings factors in the parentage of the entities by virtue of these entities being a part of AGEL.

In a 'Combined Approach', CARE Ratings evaluates the group of entities as if it were a single entity and combines the financials and business risk profiles of these entities to take a view on the ratings. All the eight entities are subsidiaries of Adani Renewable Energy Holding Ten Limited and are engaged in similar lines of business.

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

Incorporated in April 2016, KN Indi was earlier promoted (100% subsidiary) by Essel Infraprojects Limited . Subsequently, the company was acquired by AGEL in September 2020. KN Indi is solar photo voltaic project of 20 MW capacity setup in the district of Vijaywada, Karnataka. It has entered into long-term power purchase agreement with Bangalore Electricity Supply Company (BESCOM) for supplying power for a period of 25 years. The project achieved COD in March 21, 2018.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	17.6	15.7	NA
PBILDT	14.5	14.5	NA
PAT	4.1	-1.3	NA
Overall gearing (times)	2.29	2.37	NA
Interest coverage (times)	1.06	1.67	NA

A: Audited, UA: Unaudited, NA: Not Available

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	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	-	-	December 31, 2038	87.93	CARE A+; Stable
Fund-based - LT-Working Capital Limits	-	-	-	3.20	CARE A+; Stable
Un Supported Rating-Un Supported Rating (Long Term)	-	-	-	0.00	Withdrawn

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	-	-	-	-	1)Withdrawn (12-Nov-20) 2)CARE BBB- (CWD); ISSUER NOT COOPERATING* (15-May-20)	-
2	Fund-based - LT-Term Loan	LT	87.93	CARE A+; Stable	-	1)CARE A+ (CE); Stable (17-Mar-22)	1)CARE A- (CE); Stable (05-Mar-21)	-
3	Fund-based - LT-Working Capital Limits	LT	3.20	CARE A+; Stable	-	1)CARE A+ (CE); Stable (17-Mar-22)	1)CARE A- (CE); Stable (05-Mar-21)	-
4	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	1)CARE A (17-Mar-22)	1)CARE BBB+ (05-Mar-21)	-

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	
DSCR	The borrower shall, commencing from the first full year of operations, maintain the following financial parameters: Minimum DSCR or Annual DSCR, as the case may be, is 1.05 which shall be determined on the basis of annual audited statements of the borrower on consolidated basis along with obligors.
B. Non-financial covenants	
Obligor Undertaking	The Obligors shall agree and undertake that in the event of insufficiency of funds/shortfall in debt servicing by borrower, lenders shall have the right to utilize the surplus cash in any of the other TRA accounts of the obligor(s) to set-off the shortfall in debt servicing in any particular financial year.
Restricted Payments	As per sanction terms, restricted payments shall mean all dividends/ interest/ NCD coupon/ or any other distributions to sponsor/promoter or any related party. For making any restricted payments following conditions should be met and can be made only with prior approval of lenders: • All the reserves including DSRA and IRR as and when applicable are maintained and all sub-accounts required under TRA agreements are fully funded to the satisfaction of lenders • Maintenance of minimum cash balance equivalent to ensuing one quarter of project operating expense • No breach of covenants or any other terms and conditions provided in transaction documents • Minimum DSCR above 1.10 for all co-obligor entities • Cash sweep is compiled as per clause • Module assessment has been completed and cash sweep has been done to restore base case DSCR

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	Fund-based - LT-Working Capital Limits	Simple
3	Un Supported Rating-Un Supported Rating (Long Term)	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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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