Akhilagya Solar Energy Private Limited

December 14, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	78.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Assigned
Total Bank Facilities	**78.00 (₹ Seventy-Eight Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Akhilagya Solar Energy Private Limited (ASEPL) which is operating a 20 MW AC solar power project in the state of Karnataka, factors in the operating track record of around three years wherein the generation performance has been marginally lower than P 90 estimates. Further the project benefits on account of strong parentage by virtue of ASEPL being a subsidiary of Renew Power Private Limited (RPPL, rated CARE A+; Stable/CARE A1+). RPPL has a strong track record of developing and operating renewable energy projects across India as reflected by its operating capacity of 7.7 GW as of August 2022 end. RPPL's stated posture towards ASEPL is strong, as exhibited by the presence of limited period corporate guarantee which will remain valid till March 2025 end atleast.

The rating is further supported by the presence of a long term power purchase agreement (PPA) with Bangalore Electricity Supply Company Limited (BESCOM) for a tenor of 25 years which provides revenue visibility. Further CARE ratings also factors in the receipt of safeguard duty (SGD) reimbursement in the form of additional tariff of Rs. 0.29 per unit till the tenor of the PPA. The coverage indicators of the project are envisaged to remain comfortable as reflected by average DSCR being upwards of 1.25x for the tenor of the debt.

The rating is constrained on account of leveraged capital structure as illustrated by high Debt/EBITDA multiples over the near term reflected by expected Total Debt/EBITDA being 6.4x in FY23. The rating is impacted by company's exposure to adverse variation in weather conditions given the single part tariff for the project. The rating also factors in the counterparty credit risk on account of the exposure to BESCOM which is a Karnataka state utility. Further CARE Ratings notes the build-up of receivables in the company, as in the past the entity was not receiving payments due to non-renewal of the short-term interconnection approval. The pending issue has been resolved with the company receiving a long-term interconnection approval in March 2022.

CARE Ratings also notes that BESCOM has opted for the EMI scheme from Ministry of Power (MoP) through which the outstanding amount will be cleared in 48 monthly instalments. As on November 2022 end, ASEPL has received four monthly instalments and the current dues are also getting cleared in a timely manner. Going forward, the movement in the receivable position will be a key credit monitorable.

Rating sensitivities

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

- Improvement in actual generation levels in line with the P90 generation estimate resulting in improvement in average DSCR of the plant above 1.3 times on a sustained basis
- Significant reduction in the leverage level

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

- Any 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
- Significant increase in the receivable cycle
- Weakening of the credit profile of the parent, i.e., RPPL, or any change in linkages/support philosophy between the parent and ASEPL would be a negative factor

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

Detailed description of the key rating drivers

Key rating strengths

Strong parentage and operating track record of Renew Group in renewable energy segment
RPPL is the flagship company of Renew Group and is the parent entity of all the renewable energy assets of the group. In August 2021, the Renew group raised USD 610 million of primary equity from listing and private placement in public equity (PIPE) investment through a special purpose acquisition company (SPAC) transaction. The group raised equity in two tranches, through public offering and PIPE investment. With this, Renew Energy Global PLC (REG; offshore entity) is now listed on the Nasdaq Stock Exchange. The company has expanded its capacity significantly, to become one of the largest renewable energy companies in India. As of August 2022, RPPL has an operational capacity of around 7.7 gigawatt (GW).
RPPL's stated posture towards ASEPL is strong, as exhibited by the presence of limited period corporate guarantee which will remain valid till March 2025 end atleast.

Long-term revenue visibility on account of long-term PPA with BESCOM
ASEPL has low offtake risks owing to the presence of long-term (25-years) PPA with BESCOM at a tariff of Rs. 3.48/kWh, which includes SGD compensations in the form of additional tariff, for the entire duration of the project starting from actual commissioning of project. Long-term PPA provides revenue visibility for the company.

Operational track record of around three years for the project with satisfactory generation performance
The entire 20 MW grid connected solar photovoltaic (PV) power plant was commissioned successfully and achieved COD in October 2019. The project has an operational track record of around 3 years. The operational performance of the entity has been satisfactory with generation being marginally lower than the P90 estimates. In FY21 and FY22, the annual PLFs stood at 23.4% and 23.7% respectively as against P90 estimate of 24.5%.

Satisfactory debt coverage indicators
The coverage indicators of the project are expected to be satisfactory as reflected by average DSCR being upwards of 1.25x. As mandated by the sanction terms of the debt facility, the company has to create a DSRA of 1 quarter from the cash flows of the project. Presence of DSRA will provide comfort through credit perspective.

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

Exposure to counterparty credit risk
The company's operations remain exposed to the counterparty credit risk as BESCOM, as it is the sole off-taker. There has been a build-up of the receivables in the company, as in the past the entity was not receiving payments due to non-renewal of the short-term interconnection approval. The pending issue has been resolved with the company receiving a long-term interconnection approval in March 2022.

CARE Ratings also notes that BESCOM has opted for the EMI scheme from Ministry of Power (MoP) through which the outstanding amount will be cleared in 48 monthly instalments and the current dues would be cleared as per the PPA terms. As on November 2022 end, ASEPL has received four monthly instalments and the current dues are also getting cleared in a timely manner. Going forward, the movement in the receivable position will be a key credit monitorable.

Exposure to interest rate risk given the debt funded nature of capex
ASEPL's capital structure is leveraged on account of the debt-funded capex incurred for setting up the project which is customary to the renewable sector. As per CARE Ratings' base case, Total Debt/EBITDA for FY23 is expected to be 6.4x. Given the leveraged capital structure, single part nature of the fixed tariff in the PPA and floating interest rates, its profitability remain exposed to any increase in 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.

Liquidity: Adequate
As on December 6th, 2022, ASEPL had cash balances comprising ~ Rs. 4.8 crores. New sanctioned terms mandate creation of 1 quarter DSRA from 1 year cash flows of the company. CARE expects the generation level to remain in line with past trends. The internal accruals are expected to be adequate to service its debt obligations. Going forward, as per CARE Ratings' base case, gross cash accruals (GCA) for FY23 and FY24 is expected to be around Rs 2.8 and 4.9 Crores as against the annual repayments of Rs. 2.6 and 3.6 crores respectively

Analytical approach: Standalone plus factoring in 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
Akhilagya Solar Energy Private Limited (ASEPL) is a Special Purpose Vehicle (SPV) incorporated in March 2018 by Renew Solar Power Private Limited (RSPPL; rated CARE A; Positive) in order to implement 20 MW solar power project in the state of Karnataka. The project was commissioned on October 31, 2019.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	12.80	12.88	NA
PBILDT	10.51	9.74	NA
PAT	-0.01	-1.04	NA
Overall gearing (times)	5.61	5.50	NA
Interest coverage (times)	1.44	1.20	NA

A: Audited; UA: Unaudited

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		-	-	31-03-2040	78.00	CARE A-; 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	-	-	1)Withdrawn (12-May-22)	1)CARE BBB+ (CE); Stable (07-Jul-21)	1)CARE BBB+ (CE); Stable (23-Oct-20) 2)Provisional CARE BBB+ (CE); Stable (22-May-20)	-
2	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	1)Withdrawn (12-May-22)	1)CARE BBB (07-Jul-21)	1)CARE BBB (23-Oct-20) 2)CARE BBB (22-May-20)	-
3	Fund-based - LT-Term Loan	LT	78.00	CARE A-; Stable				

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Non-Financial covenants	
Restricted Payments	The borrower shall not, declare or pay any restricted payment unless the restricted payment conditions have been compiled with and the restricted payments shall be made out of the surplus sub-account.

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 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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